BEFORE THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DIRECT TESTIMONY OF

ELLEN LAPSON

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-370-E

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ellen Lapson and my business address is 370 Riverside Drive, New York, New York 10025.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the founder and principal of Lapson Advisory, a private company that is a division of Trade Resources Analytics, LLC.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. After graduating from Barnard College of Columbia University in 1969 with a Bachelor of Arts degree, I earned a Master's degree in Business Administration from New York University's Stern School of Business in Accounting with a minor concentration in Finance. I am qualified as a Chartered Financial Analyst ("CFA") and a member of the CFA Institute.

I began my career in the financial markets as an equity analyst for five years at Argus Research Corporation analyzing utility company equity securities. For the next 20 years, I held several posts at Chemical Bank and Chemical Securities (now J.P. Morgan) as a corporate banker and an investment banker structuring and executing financial transactions for utility and infrastructure companies. Thereafter, I spent 17 years first as a senior director and then as a managing director at Fitch Ratings, a major credit rating agency. At Fitch Ratings, I managed analysts who rated credits in the sectors of electricity and natural gas and project finance, and I maintained liaison with bankers and investors in utility securities. During my 37 years as a utility banker and as a utility credit rater at Fitch Ratings, I gained deep experience in dealing with utilities in various degrees of financial health and financial distress, and in those roles, I had to evaluate serious issues involving utilities' solvency, bankruptcy, and restructuring.

I founded Lapson Advisory in 2012 in order to provide consulting services on matters that involve utility finance including: credit rating advisory to utilities and infrastructure projects; advanced training for mid-career professionals in utility finance; and expert testimony on financial and credit rating issues specifically related to utilities. I provide independent consulting services relating to the financial strength of utilities and infrastructure companies. I also advise client companies on access to capital and debt markets and frequently testify as an expert witness relating to utility finance and utility capital market matters. Also, I develop and teach executive seminars about utility investment analysis, credit evaluation, and corporate finance.

Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS BEFORE A REGULATORY COMMISSION?

A. Yes. Although I have not previously provided live testimony before the Public Service Commission of South Carolina ("Commission"), I have provided a sworn statement that was filed with the Commission on December 7, 2017 in Docket No. 2017-305-E. I also have testified as an expert witness before regulatory commissions in other states and before the Federal Energy Regulatory Commission ("FERC") on topics such as utility financial strength and ability to attract capital, liquidity and solvency, and the financial implications of purchase power commitments, rate proceedings, and utility merger proceedings. A list of the proceedings in which I have testified is included in Exhibit No. ___ (EL-1), along with information about my professional credentials and experience in the investment communities.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my Direct Testimony is to provide information to the Commission as an expert financial witness on behalf of the Joint Applicants regarding their Joint Application for review and approval of a business combination and a prudency determination regarding the abandonment of construction of V.C. Summer Units 2 & 3 ("Units"). My Direct Testimony discusses the weakened financial condition of South Carolina Electric & Gas ("SCE&G") and SCANA Corporation ("SCANA"), which poses a significant risk to customers, absent the proposed business combination. My testimony also addresses the financial capability and stability of Dominion Energy, Inc. ("Dominion Energy"), as well as the benefits to SCE&G customers of the proposed business combination of SCANA into Dominion Energy. I also review the financial consequences of some alternative courses of action.

Q. PLEASE SUMMARIZE THE KEY POINTS OF YOUR DIRECT TESTIMONY.

A. SCE&G and its parent SCANA are currently in a weakened financial condition as demonstrated by the diminished value of SCANA's shares, reduced investor willingness to purchase the commercial paper notes of South Carolina Fuel Company ("FuelCo"),[1] recent downgrades of SCE&G's and SCANA's credit ratings, and the fact that both companies' credit ratings are on a rating watch status for likely further downgrades. The financial future of both SCE&G and SCANA are clouded with uncertainty, and as a consequence, the companies are constrained in their access to equity and debt capital funding, creating additional risk for utility customers.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. I have divided the remainder of my direct testimony into five sections as follows:

I. SCE&G's Current Financial Condition

[1] *See* Direct Testimony of Iris N. Griffin, p. 30.

I. SCE&G'S CURRENT FINANCIAL CONDITION

A. Background

Q. BY WAY OF BACKGROUND, ARE YOU FAMILIAR WITH THE CIRCUMSTANCES GIVING RISE TO SCE&G'S CURRENT FINANCIAL DIFFICULTIES?

A. Yes. It is my understanding that, in Docket No. 2008-196-E, SCE&G sought Commission approval of a Combined Application for a Certificate of Environmental Compatibility and Public Convenience and Necessity and for a Base Load Review Order for the Construction and Operation of a Nuclear Facility in Jenkinsville, South Carolina for the Units ("Combined Application"). I understand that, among other things, the Combined Application sought pre-construction review of the prudency of its decision to construct the Units ("Project") and for approval of cost and milestone targets for completing the Project pursuant to the terms of the Base Load Review Act ("BLRA"). I am also aware that the Commission issued Order No. 2009-104(A), which granted the relief requested in the Combined Application and approved the proposed construction schedule and capital cost schedule for the Units. I also understand that in five ensuing orders, the Commission approved changes to the schedules of costs or construction for the Units. In the most recent order, Order

No. 2016-794, I am aware that the Commission approved SCE&G's request for a new construction milestone schedule and updated the capital costs of the Project, which were based on an October 2015 amendment to the Engineering, Procurement, and Construction Agreement ("Amended EPC Contract") under which the Units were being constructed by Westinghouse Electric Company, LLC ("Westinghouse").

Q. WHAT IS YOUR UNDERSTANDING OF THE CURRENT FINANCIAL STATUS OF WESTINGHOUSE?

A. It is public knowledge that on March 29, 2017, Westinghouse and certain of its affiliates petitioned for protection under Chapter 11 of the United States Bankruptcy Code. I also have been advised that Westinghouse informed SCE&G and the co-owner of the Project, the South Carolina Public Service Authority ("Santee Cooper"), that Westinghouse intended to use provisions of the Bankruptcy Code to reject its contractual obligations to complete the Units under the Amended EPC Contract including certain fixed price guarantees set forth therein.

Q. ARE YOU AWARE THAT SCE&G AND SANTEE COOPER ENTERED INTO AN AGREEMENT WITH WESTINGHOUSE'S PARENT COMPANY, TOSHIBA CORPORATION ("TOSHIBA"), REGARDING THIS MATTER?

A. Yes. I understand that on or about July 27, 2017, SCE&G and Santee Cooper entered into a settlement agreement with Toshiba pursuant to which Toshiba agreed to pay SCE&G and Santee Cooper $2.2 billion in satisfaction of all claims for damages associated with Westinghouse's anticipated rejection of the EPC Contract. I also understand that SCE&G's share of the proceeds of the settlement, before taxes, is approximately $1.1 billion, after payment of certain contractor's liens against the Project. (the "Toshiba Corporate Guarantee Settlement Payment"). I also am aware that, on September 27, 2017, SCE&G sold to Citibank N.A. ("Citibank") the right to all future guarantee payments from Toshiba, except for an October 2017 payment. After deduction of estimated amounts which may be used to liquidate certain contractor's liens on the Units, it is my understanding that the net proceeds to SCE&G of the Toshiba Corporate Guarantee Settlement Payment is approximately $1.0 billion.

Q. IN YOUR VIEW, WAS IT PRUDENT FOR SCE&G TO MONETIZE THE TOSHIBA CORPORATE GUARANTEE SETTLEMENT PAYMENT?

A. Yes, it was appropriate and prudent for SCE&G to reduce its financial risk relating to the Toshiba Corporate Guarantee Settlement Payment. The financial condition of Toshiba was precarious at the time; Toshiba was then a financially weak guarantor, with credit ratings very low in the speculative rating category.[2] Gauging the probability and timing of collecting payment from Toshiba on its guarantee added yet more uncertainty to SCE&G's already considerable burden of risks. By accelerating the receipt of the Toshiba Corporate Guarantee Settlement Payment, SCE&G was able to transfer the Toshiba credit risk and collection risk to another party. The buyer, Citibank, is a financial institution with a very large and diverse portfolio of exposures; thus, its exposure to the risk of Toshiba defaulting on its guarantee payments was by no means as concentrated as it was to SCE&G. The transaction also was viewed favorably as a risk mitigant for SCE&G in both the equity and debt capital markets.

Q. HAS YOUR OPINION REGARDING SCE&G'S MONETIZATION OF THE TOSHIBA CORPORATE GUARANTEE SETTLEMENT PAYMENT CHANGED GIVEN THAT TOSHIBA SUBSEQUENTLY PAID THE BALANCE OF ITS SETTLEMENT TO CITIBANK?

A. Not at all. To suggest that SCE&G should not have reduced its risk by monetizing the Toshiba Corporate Guarantee Settlement Payment would be akin to saying that it was foolish to have obtained auto insurance last year simply because the insured did not have an auto collision. By monetizing the payments up front, SCE&G mitigated the risk of not being able to collect some or all of the remaining payments, which was a significant risk and would have further undermined the

[2] S&P long-term issuer credit rating B and Moody's long-term rating Caa1.

financial stability of the Company. This transaction also gave the financial markets greater assurance in SCE&G's financial status and liquidity, due to the use of proceeds to pay down SCE&G's then outstanding short-term debt.

Q. WHAT IS YOUR UNDERSTANDING OF THE CURRENT STATUS OF THE NUCLEAR PROJECT?

A. I understand that, following evaluations by SCE&G and Santee Cooper of their options regarding the Project, Santee Cooper's board announced on July 31, 2017, its decision to suspend construction of the Project. I am aware that SCE&G thereafter determined the most reasonable and prudent course of action for its customers and itself was to abandon construction of the Units and return the site to a stable condition. Accordingly, I understand that, on July 31, 2017, SCE&G instructed the contractor to cease all work on the project other than work necessary to safely and efficiently demobilize construction and to stabilize the site.

Q. WHAT HAS BEEN THE RESPONSE OF THE SOUTH CAROLINA LEGISLATURE TO THE EVENTS SUMMARIZED ABOVE?

A. My understanding is that, on June 28, 2018, the South Carolina General Assembly enacted Act 258 that orders the Commission to provide an experimental rate that SCE&G customers will pay, retroactive to April 1, 2018 and through the pendency of this proceeding ("Experimental Rate"). This Experimental Rate excludes the rate increases authorized by the Commission in the BLRA revised rate orders issued from 2011 through 2016, which effectively suspends SCE&G's ability to collect approximately 14.8% of rates related to the nuclear project. I also understand that, on July 2, 2018, the Commission issued Order No. 2018-459 implementing this Experimental Rate and that, unless the Commission determines it is necessary to adjust the rate to satisfy constitutional requirements of utility ratemaking, the reduced rates are to remain effective through the issuance of the Commission's order in this proceeding. This amounts to a reduction of SCE&G's revenue of approximately $367 million annually (approximately $270 million during the period April 1 through December 21, 2018).

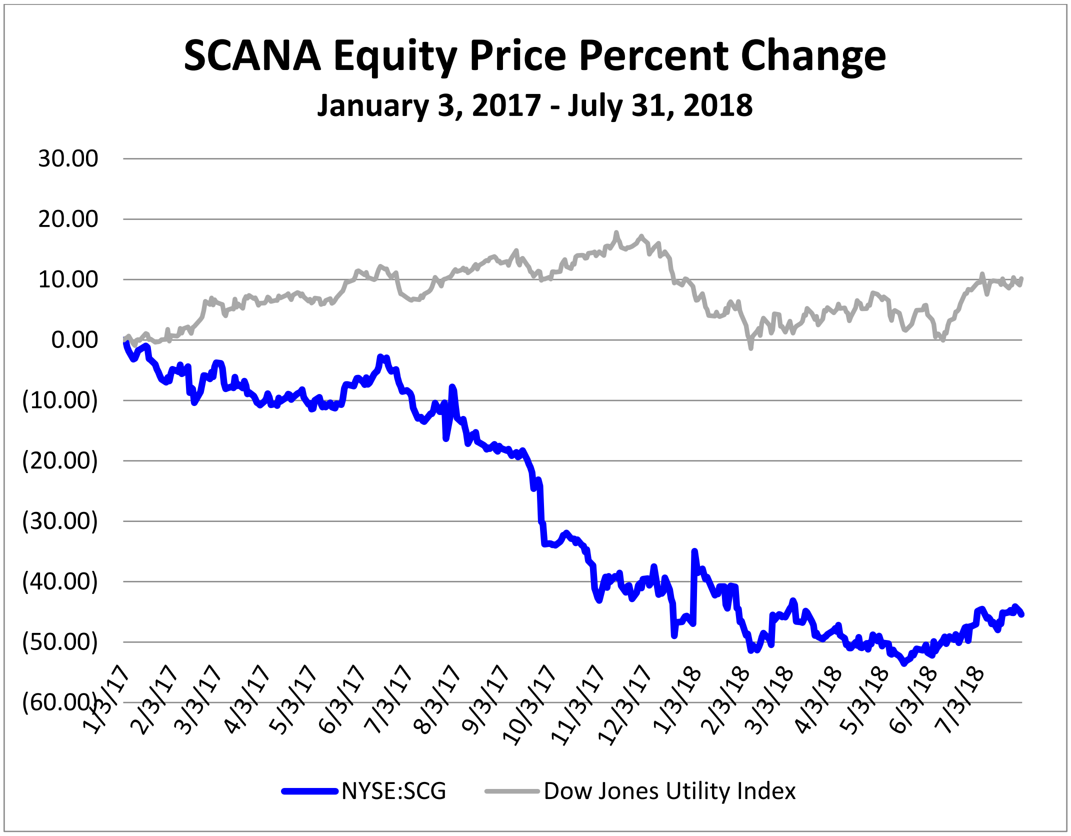
B. Impact in the Financial Market

Q. HAS THERE BEEN ANY REACTION IN THE CAPITAL MARKETS TO THESE EVENTS?

A. Yes, there have been visible effects in the equity and debt markets as the events unfolded. As shown in Table 1 below, in the equity market, the value of SCANA's common shares has declined since January 3, 2017 from approximately $72 to $39.99 per share at the market close on July 31, 2018. This represents a decline of 45.4% in value during a period in which the Dow Jones Utility stock index rose 10.18%, translating into a relative performance of negative 55 percent (-55%) for SCANA's equity relative to the utility sector.

[Table 1 begins on following page]

Table 1: Decline in SCANA Equity Valuation



Q. WHAT EFFECTS HAVE THE DECLINE IN THE EQUITY VALUE HAD ON SCE&G AND SCANA IN THE DEBT CAPITAL MARKET?

A. Lenders, bankers, commercial counterparties, and bond investors recognize that such a profound deterioration of equity value is a signal of financial weakness. Because equity investors focus upon the residual value of a company net of its debt (as debt holders have a senior position relative to equity investors), a material decline in the market value of equity signals that there is less protection available for creditors and bondholders. Many institutional investors (such as pension funds, mutual funds, insurance companies, and banks) use market-implied credit scoring systems to factor the change in the price of traded securities into their credit evaluations.

Q. WHAT EFFECTS HAVE THE REGULATORY AND LEGISLATIVE MATTERS AND THE DECLINE IN THE EQUITY VALUE HAD ON THE CREDIT RATINGS OF SCE&G AND SCANA?

A. As a direct result of regulatory and legislative actions, the three major credit rating agencies have downgraded their published credit ratings of both companies. The credit ratings of SCE&G by the three major credit rating agencies, Moody's Investors Service ("Moody's"), Standard & Poor's Corporation ("S&P"), and Fitch Ratings ("Fitch") are lower than they were at the start of 2017, as shown in Table 2 below.

Table 2: SCE&G Credit Ratings and Outlook Status

Rating Agency	Rating as of January 2017	Rating as of November 1, 2017	Rating as of February 5, 2018	Current Rating
Fitch	BBB (Negative Watch)	BBB– (Negative Watch) (Sept. 29, 2017)	BBB– (Evolving Watch) (Jan. 3, 2018)	BBB– (Evolving Watch) (July 3, 2018)
S&P	BBB+ (Outlook Stable)	BBB (Watch Negative) (Sept. 29, 2017)	BBB (Watch Negative) (Sept. 29, 2017)	BBB (Watch Negative) July 3, 2018
Moody's	Baa2 (Outlook Negative)	Baa2 (On Review for Downgrade (Nov. 1, 2017)	Baa3 (On Review for Downgrade) (Feb. 5, 2018)	Baa3 (Outlook Negative) July 2, 2018

The comparable trend of lower ratings for SCE&G's parent company, SCANA, appears in Table 3 below.

Table 3: SCANA Credit Ratings and Outlook Status

Rating Agency	Rating as of January 2017	Rating as of November 2017	Rating as of February 5, 2018	Current Rating
Fitch	BBB- (Negative Watch)	BB+ (Negative Watch) (Sept. 29, 2017)	BB+ (Evolving Watch) (Jan. 3, 2018)	BB+ (Evolving Watch) (July 3, 2018)
S&P	BBB+ (Outlook Stable)	BBB (Watch Negative) (Sept. 29, 2017)	BBB (Watch Negative) (September 29, 2017)	BBB (Watch Negative) (July 3, 2018)
Moody's	Baa3 (Outlook Stable)	Baa3 (Outlook Negative (Nov. 1, 2017)	Ba1 (On Review for Downgrade) (February 5, 2018)	Ba1 (Outlook Negative) (July 2, 2018)

Exhibit No. __ (EL-2) provides a table that explains the correspondence among the ratings symbols used by the three rating agencies. SCE&G's current ratings of BBB- by Fitch and Baa3 by Moody's are equivalent to one another and are at the bottom rung within the investment grade category. In comparison, the median and average ratings of U.S. utility operating companies are A- and A3, which is three notches higher than the equivalent ratings of SCE&G by Fitch and S&P, and two notches higher than SCE&G's rating of BBB by Moody's.

SCANA's ratings by Fitch and Moody's are below investment grade category (that is, speculative grade) at BB+ and Ba1 respectively. Those two ratings are approximately three rating notches below the median and average ratings of utility parent holding companies that are SCANA's peers in the sector. Two of the three agencies have placed SCE&G and SCANA on an alert status that can lead to a downgrade, while the third characterizes the companies' rating outlook as negative.

Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE OUTLOOKS OR WATCH STATUS ASSIGNED TO SCE&G AND SCANA BY EACH OF THE CREDIT RATING AGENCIES.

A. Most of the time, the majority of ratings carry a stable rating outlook, meaning that there is no expected direction of change. An Outlook Positive or Negative indicates that the agency foresees that the company's underlying fundamental prospects are trending in a favorable or unfavorable direction relative to the current rating, but it does not require any near-term review or rating action up or down. By contrast, assigning the status of Watch Negative or Watch Positive is tied to a specific event or circumstance awaited by the agency; when a rating carries a watch status, the agency must review the rating frequently, and the occurrence of the specified event or circumstance would likely cause the rating agency to change the rating in the direction indicated. Typically, the alternatives for a negative watch are to downgrade or to affirm the current rating, and likewise for a positive watch, the alternatives are to upgrade or to affirm.

Early in 2017, Fitch assigned a Negative Watch for SCANA and SCE&G, while both Moody's and S&P considered the outlook to be stable. By the end of 2017, however, all three rating agencies had assigned a negative watch status to both companies. On September 29, 2017, S&P's ratings designation was changed to CreditWatch Negative. In January 2018, Fitch changed its rating watch status from Negative to Evolving, specifically citing the potentially favorable effects of the agreement of Dominion Energy and SCANA to pursue a merger as the basis for the change. However, the Evolving Watch Status also anticipates a potential downgrade.

Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE EVOLVING WATCH STATUS THAT FITCH ASSIGNED IN JANUARY 2018.

A. Evolving Watch is an infrequent designation that signals a circumstance in which one likely outcome is negative (action by the South Carolina Legislature or the Commission that would cause a termination of the Agreement and Plan of Merger) and would lead the agency to lower the rating, while another outcome (regulatory approval and closing of the proposed business combination) would lead Fitch to raise the rating. Like a Negative Watch, an Evolving Watch signifies that the situation is unstable, and also carries a material likelihood of a downgrade.

Q. WHAT CONCERNS WERE EXPRESSED BY CREDIT RATING AGENCIES THAT ACCOUNT FOR THEIR RATINGS DOWNGRADES AND NEGATIVE WATCH STATUS?

A. In September 2017, prior to the filing of the Joint Application, Fitch explained its rating actions as follows:

> Fitch is concerned with the sharp deterioration in the legislative and regulatory environment in South Carolina. There is a significant risk that SCE&G may have to cease collection of

> revenues related to the new nuclear units, as petitioned by the Office of the Regulatory Staff (ORS) to the SC Public Service Commission (PSC) until the legal issues regarding the BLRA are resolved. Fitch could consider additional negative rating actions if the BLRA were to be found unconstitutional and material refunds required. The Rating Watch Negative primarily reflects the risk that adverse regulatory orders could lead to restricted liquidity, constrained capital access and incremental debt issuance that alters the structural priority of debt levels. Fitch expects to resolve the Rating Watch [Negative] once better visibility is obtained regarding the PSC order on the ORS petition as well as the liquidity and financing strategy at both SCANA and SCE&G….
>
> Potential Suspension of BLRA-Related Revenues: The BLRA-related revenues have been crucial to SCE&G maintaining credit metrics consistent with an investment-grade rating during the nuclear construction period. They represent roughly one third of SCE&G's estimated EBITDA for 2017 and the primary source of funds to start repayment of the construction-related debt incurred in recent years. Suspension of $445 million of BLRA-related revenues would lead to approximately 200bps deterioration in adjusted debt / EBITDAR metrics, which were at 4.5x as of June 30, 2017. While not part of Fitch's base case scenario, any permanent loss of BLRA-related revenues and associated write-offs would materially impair SCE&G's financial health, leading to multi-notch rating downgrades for SCE&G and SCANA depending on the repayment mechanisms and financing options available to them. [3]

Moody's expressed the following concerns in early November 2017, including the concern regarding a possible default by exceeding leverage covenants:

> Specifically, if the ORS recommendations were to be adopted, there would be a significant reduction in cash flow and a meaningful impact on credit metrics. For example, we estimate the companies' ratios of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt, which are currently in the high-teens to twenty percent range, could move to the

[3] Exhibit __ (EL-3), Fitch Ratings, "Fitch Downgrades SCANA to 'BB+' / SCE&G to 'BBB-'; Negative Watch Maintained," at 1 (Sept. 29, 2017).

> mid-to-low teens range. In addition, implementation of the ORS recommendation could lead to a substantial asset impairment, which in some downside scenarios, could result in a covenant violation under the companies' credit facilities, restricting their access to liquidity. In light of the increased regulatory and political uncertainty, the resulting metrics would likely no longer be appropriate for the companies' current ratings.[4]

Q. HOW HAVE THE CREDIT AGENCIES REACTED TO THE ENACTMENT OF ACT 258, ORDER NO. 2018-459, AND THE IMPLEMENTATION OF THE EXPERIMENTAL RATE?

A. On July 2 and 3, 2018, all three rating agencies published comments concerning the impact of those actions on the credit status of SCE&G and SCANA.

On July 3, 2018, S&P continued its current ratings (group credit rating of BBB) and stated that the ratings remain on a negative credit watch status while SCE&G seeks injunctive relief from the Experimental Rate. S&P revealed it would lower the issuer credit ratings for the group by one notch if SCE&G's request for injunctive relief is not granted. S&P's commentary explains:

> We are maintaining the CreditWatch [Negative] to reflect the potential for a downgrade if the Court does not issue an injunction prohibiting the SCPSC from implementing the new law. The rate reduction would significantly weaken the company's financial measures, despite its recent announced plan to reduce its dividend by about 80%."[5]

[4] Exhibit __ (EL-4), Moody's Investors Service, "Rating Action: Moody's places SCANA and SCE&G on review for downgrade," (Nov. 1, 2017).

[5] Exhibit __ (EL-5), S&P RatingsDirect, Research Update, "SCANA Corp. And Subsidiaries 'BBB' Ratings Remain On CreditWatch Negative On Passage Of South Carolina Bill," at 2 (July 3, 2018).

A downgrade of only one notch by S&P would result in an issuer credit rating of BBB- for SCE&G, only one notch above speculative grade, while a rating downgrade of two notches would result in an issuer credit rating of BB+, a speculative grade rating.

Q. HOW DID FITCH REACT TO THE ENACTMENT OF ACT 258, ORDER NO. 2018-459, AND THE IMPLEMENTATION OF THE EXPERIMENTAL RATE?

A. Fitch also published an update on July 3, 2018 stating that it is maintaining the ratings for SCE&G of BBB- and for SCANA of BB+ on Ratings Watch Evolving status. Explaining its continuing alert status, Fitch's report states:

> The CreditWatch with negative implications on SCANA and its subsidiaries reflects our view of ongoing uncertainty regarding cost recovery of the abandoned V.C. Summer nuclear construction project. We could lower the ratings if the Court does not issue an injunction prohibiting the SCPSC from implementing the new law. A rate decrease of the magnitude reflected in the law would weaken credit metrics significantly. We could also lower ratings even if the Court issues an injunction that is subsequently followed by a SCPSC order to reduce rates or an order to provide rate credits for Summer-related costs that results in weaker financial measures…
>
> Fitch's Rating Watch Evolving also considers the potential positive implications of the proposed merger between SCG and Dominion Energy (DEI, BBB+/Stable). In January 2018, SCG's and subsidiaries' Rating Watch was revised to Evolving from Negative as a result of the agreed-to merger with a larger and better capitalized entity and the rate plan proposed by DEI. If the merger were consummated as originally envisioned, Fitch would expect a

> stabilization of SCG's and SCE&G's credit metrics and would consider an upgrade. [6]

Regarding projected credit metrics for both companies, Fitch went on to comment:

> The company recently cut its dividend by 80%, preserving approximately $275 million in cash annually. Nonetheless, if the recently ordered 14.8% rate reduction where to be made permanent there will be a significant effect on SCG and SCE&G's credit metrics. Fitch expects SCG's Total Adjusted Debt/EBITDAR to average around 6.0x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively. [7]

Furthermore, Fitch mentions concerns about the future liquidity of SCANA and SCE&G, noting the companies' dependence upon its committed credit lines. Fitch states that a negative rating action would result if "[a]vailability under committed liquidity facilities and anticipated internally generated cash flows [fall] short of expected obligations due in the next 12 to 18 months."[8] If Fitch lowers its BBB- issuer rating for both companies by only a single notch, the resulting rating would be a speculative-grade rating of BB+ for SCE&G and BB for SCANA.

Q. HOW DID MOODY'S REACT TO THE ENACTMENT OF ACT 258, ORDER NO. 2018-459, AND THE IMPOSITION OF THE EXPERIMENTAL RATE?

A. Moody's announced a Rating Action on July 2, 2018 that confirmed the ratings at Baa3 for SCE&G and Ba1 for SCANA, and revised its status from "On

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[6] Exhibit __ (EL-6), Fitch Ratings, "Fitch Maintains Watch Evolving on SCANA and Subsidiaries," at 2 (July 3, 2018).

[7] Ibid.

[8] Ibid.

Rating Review for Downgrade" to a Negative Outlook. Although Moody's reaction to the implementation of the Experimental Rate is slightly more moderate than that of S&P and Fitch, Moody's expressed concerns about the impairment of the companies' ongoing liquidity and access to funding, stating that it would lower the ratings in response to the following circumstances:

> Downward pressure on the ratings could again increase if SCE&G is ordered to refund amounts previously collected under the BLRA, particularly without the benefit of a larger, better capitalized partner; or if rates established by the SCPSC later this year do not provide an opportunity for SCE&G to maintain a ratio of CFO pre-WC to debt that is at least in the low-teens on a sustained basis. Furthermore, if the company's liquidity becomes constrained, such as being unable to draw on its credit lines or to issue additional debt, there could also be downward movement in the ratings. [9]

Q. IN THE CURRENT ENVIRONMENT, HOW DO INVESTORS AND BANKERS EVALUATE INVESTMENT OR CREDIT DECISIONS REGARDING SCE&G AND SCANA?

A. Investors cannot base their evaluations on the historical financial data from the companies' 2016 or 2017 financial statements, because the financial statements for recent years would give the outdated impression that the companies' financial conditions (as measured by the historical cash flow from operations and balance sheet numbers) appear robust. Rather, investors will evaluate the uncertain circumstances confronting the Company as it faces legislative and regulatory

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[9] Exhibit __ (EL-7), Moody's Investors Service, Rating Action: "Moody's Confirms SCANA, SCE&G and PSNC, Rating Outlook Negative," at 1 (July 2, 2018).

actions that threaten to reduce the Company's ongoing revenues and cause SCE&G to take a write-down of its BLRA regulatory asset account.

SCE&G's BLRA regulatory asset is valued based upon the expected value of future revenues recoverable pursuant to the BLRA, which is now subject to considerable uncertainty both as to the amount and the timing of any recovery. If legislative or regulatory actions precipitate a write-down of the BLRA regulatory asset in whole or in part, the balance sheet value of common equity must be written down as well. The size of the reduction of equity and the amount of future reduction of cash flow are subject to various forecasts, producing an array of possible forecasts for key financial ratios.

Since SCE&G's debt will remain an obligation that must be paid even if the regulatory asset account is reduced, SCE&G's debt leverage measured in relation to equity or in relation to the expected future cash flow would worsen. If the Commission were to make the Experimental Rates permanent, SCE&G's debt may reach or exceed the 70% debt limitation that is defined as a default of the financial covenants of its revolving credit facilities. As a consequence, all of SCE&G's loans would become immediately due and payable, triggering a liquidity crisis. In a less extreme scenario, SCE&G would not breach the covenant level but its finances under some alternatives would be deemed "highly leveraged" (e.g., debt to total capital of 60% or greater); such elevated leverage would compromise SCE&G's financial flexibility and would result in speculative grade credit ratings.

Q. HOW WOULD RATINGS IN THE SPECULATIVE GRADE OR AT THE BOTTOM OF THE INVESTMENT GRADE CATEGORY AFFECT SCE&G?

A. When a utility is operating with ratings in the speculative grade or at the bottom of the investment grade category, the ratings reflect the fact that there is very little margin of protection to cover the normal variances in cash flow and operating stresses that may arise at any time. This circumstance creates heightened risk for both fixed income and equity investors and raises the cost of debt and equity capital.

To deal with such uncertainties, fixed income investors, equity investors, and bankers make studied estimates of several different scenarios, weighing the outcomes statistically, or considering minimum and maximum ranges. Under the present circumstances, however, the enormous risks confronting SCE&G and SCANA are evident to professionals in both the equity and credit markets.

Q. IN YOUR PROFESSIONAL EXPERIENCE, WHAT IS THE IMPLICATION OF THE CURRENT SITUATION FOR SCE&G AND SCANA IN TERMS OF THEIR ACCESS TO CAPITAL?

A. There are no investors who are compelled to invest in the securities of SCE&G or SCANA; conservative investors and risk-averse investments have many other alternatives both within the utility sector and in other industry sectors, and they can take their funds elsewhere. With so much uncertainty clouding any financial evaluation of SCE&G or SCANA, conservative and risk-averse investors stay on the sidelines, withdraw capital, and avoid investment, leaving a different class of investors who are willing or able to tolerate more speculative investments, but demanding much higher yields. As a consequence, the pool of accessible capital is significantly reduced, and the cost of capital rises sharply, as is always the case in speculative types of debt or equity.

Q. WOULD SCE&G BE ABLE TO ACCESS THE CAPITAL MARKET TO MEET FUNDING OR REFUNDING NEEDS, OR COULD IT EXPAND OR REPLACE ITS BANK FACILITIES UNDER THE CURRENT CIRCUMSTANCES?

A. No. Until there is clarity in how the Company will be permitted to recover the cost of its nuclear investment, investors, if willing to entrust to SCE&G at all, will be very cautious and will demand higher returns to accept a much higher risk.

Q. DOES SCE&G HAVE THE ABILITY TO BORROW UNDER ITS EXISTING COMMITTED CREDIT FACILITY?

A. As of the date of filing this testimony, it is my understanding that the Company does have the ability to borrow under its revolving credit facility. However, SCE&G could lose borrowing access if there is a Material Adverse Event affecting the Company’s circumstances or if the Company breaches its leverage covenant (that is, total debt shall not exceed 70% of total capital) due to a severe write down of equity, thus triggering an Event of Default. Even if there is no Material Adverse Event or default and the Company draws down its credit facility to offset inadequate operating cash flow, SCE&G’s ability to repay those loans still would be significantly impaired if the Experimental Rate is made permanent.

Q. PLEASE SUMMARIZE THE CURRENT FINANCIAL CONDITION OF SCE&G AND SCANA.

A. SCE&G and its parent SCANA are currently in weakened financial conditions, despite favorable historical financial reports. The companies are vulnerable to potential serious loss of cash flow and related write-off, and their book equity may be diminished, all due to pending proceedings in the South Carolina legislature and before the Commission. The companies' credit ratings are substantially below those of peer companies in the utility sector, and the ratings of two credit agencies are on ratings watch statuses, indicating that they are under review for further downgrades. Elimination of the BLRA recovery stream of payments would likely result in downgrades of both companies in the speculative grade by all three rating agencies. Increased debt leverage as a result of severe equity write-down also would make SCE&G vulnerable to operating or regulatory stresses that would make it difficult for the Company to fund normal operations or external events, such as storm restoration.

II. RISKS TO SCE&G CUSTOMERS

Q. IS SCE&G'S WEAKENED FINANCIAL CONDITION A MATTER OF CONCERN TO CUSTOMERS AND THE COMMISSION?

A. Yes. A utility in weak financial condition may not be able to fulfill its obligation to meet the needs of electricity consumers. The electric utility business is capital intensive and electric utilities are obligated to invest continuously in long-lived fixed assets to serve growth in connections, comply with changing governmental mandates and safety regulations, replace infrastructure at the end of its useful life, and enhance the resilience and reliability of its systems. These needs require steady access to bank credit facilities and the bond market. When a company has insufficient cash flow and poor access to new capital, however, it may not be in a sound position to invest in expanding its system to serve new customers, or to maintain and improve the quality and reliability of its power supply.

In my experience, utilities in financial distress with weakened financial condition often suffer degraded reliability as they will have insufficient funds to devote to maintaining and upgrading their system and facilities. Also, distressed utilities are not likely to be aggressive in industrial development and job creation in their service territory. Utilities with weakened financial condition and constrained access to external funding do not have the resources needed to carry out preventive maintenance, to retain full crew strength for tree-trimming, or to maintain ample inventories of spare parts. Such utilities become more vulnerable to windstorms and other hazards. Moreover, natural disasters such as hurricanes or floods will periodically require SCE&G to make extraordinary and unexpected expenditures to restore service. The ability to make an effective and immediate restoration requires the Company to maintain strong credit with its counterparties – the vendors of equipment, contract service work crews, and providers of other emergency services – in order to speed rebuilding and service restoration.

Q. CAN YOU PROVIDE AN EXAMPLE?

A. Yes. During 2016, for example, SCE&G's system suffered damage as a result of Hurricane Matthew, which at its peak resulted in more than 290,000 SCE&G electric customers losing power. In order to restore and reinforce service, SCE&G made immediate and extraordinary expenditures of approximately $32 million, including for supplies and extra work crews, despite lower sales revenues as a result of customer outages. Similarly, when Hurricane Hugo struck South Carolina in 1989, it caused approximately $52 million in damages to SCE&G's transmission and distribution assets. And if such a storm were to hit the same area in South Carolina today, it is expected to cost SCE&G more than $100 million.

When disaster occurs, if the credit-worthiness of SCE&G and its parent SCANA is weak, vendors may not be eager to provide immediate restoration services, thus causing the economy of areas within SCE&G's service territory to suffer. And, if another service territory requires restoration services (i.e., following a major hurricane event), these vendors may not give SCE&G priority, but instead decide to serve other electric utilities first, further delaying the restoration of safe and reliable service in its territory. For these reasons, electric consumers and the public interest benefit from the utility's financial strength, liquidity, and access to capital. This is especially true when operational problems coincide with cyclical periods of constrained financial market conditions.

Q. DOES THE INVESTMENT MARKET CYCLE AFFECT WEAK UTILITIES' ACCESS TO CAPITAL?

A. Yes, decidedly so. Access to issuing equity in the market evaporates or becomes constrained during the trough in the financial cycle. This was certainly the case in late 2008 and early 2009. The debt market also varies based on the stage in the financial cycle, affecting utilities' access to long-term and short-term debt funding. Even when the capital market cycle is optimal, sub-investment grade borrowers have constrained and more costly access to new funds when open market conditions prevail. Furthermore, times are not always favorable in the capital market. During periods of financial market distress, access to the long-term and short-term debt markets becomes constrained not only for sub-investment grade credits but also for those in the lower tier of the investment grade category, i.e., those with ratings of BBB or BBB- from S&P or Fitch, or the equivalent Moody's rating of Baa2 or Baa3.

As was seen in 2009-2010, periods of market transition or distress constrain the ability of companies with BBB or BBB- ratings from S&P or Fitch, and Baa2 or Baa3 Moody's ratings to secure financing in the amounts needed to refund maturing debt or carry out their capital expenditures as planned. Any low-rated companies that are forced to draw heavily on bank lines during the period of market stress also are exposed to higher costs of funding and the scarcity of new bank credit commitments. Violating bank covenants would expose the company to the loss of the ability to borrow and to illiquidity. In addition, bank capital is typically constrained at the time of capital market distress, and banks become extremely cautious about extending credit to the weakest borrowers.

Q. WHAT DOES THIS SUGGEST ABOUT SCE&G'S CURRENT ACCESS TO FUNDS?

A. Currently, SCE&G's access to funds is constrained by the burden of extreme uncertainty. It is desirable for utilities to aim for target ratings as close to the sector median of A- (or Moody's A3) as possible. Ratings of BBB- and Baa3 (or even lower speculative grade ratings in the BB or Ba range) expose SCE&G's customers to the risks of declining service quality and an inadequate ability to restore service after catastrophic storms. The interests and needs of customers for reliable and high-quality utility service will only be met if SCE&G is able to regain open access to capital throughout the capital market cycle, even in distressed markets, such as the financial market crisis from September 2008 through early 2010.

III. BENEFITS OF PROPOSED BUSINESS COMBINATION WITH DOMINION ENERGY

Q. WHAT IS YOUR UNDERSTANDING OF THE TRANSACTION PRIMARILY PROPOSED BY THE JOINT APPLICANTS?

A. Company Witnesses Addison, Griffin, and Kochems discuss in more detail the customer benefits made possible by the Dominion Energy combination.

However, it is my understanding that the primary proposal in the Joint Application includes the following features, among other things:

1. SCANA will be combined with Dominion Energy and become a wholly owned subsidiary of Dominion Energy. As a result of this business combination, SCE&G would remain a direct, wholly-owned subsidiary of SCANA and would continue to exist as a separate legal entity.
2. A condition of the business combination is Commission approval of a Customer Benefits and Cost Recovery Plan, including the following:
    a. SCE&G electric customers will receive a one-time rate credit totaling $1.3 billion.
    b. SCE&G will forego recovery of $1.4 billion of the New Nuclear Development ("NND") Project Costs, which includes the prior impairments taken by SCE&G, as well as recovery of $361 million in regulatory assets related to the NND Project.
    c. Dominion Energy will provide SCE&G's customers with an immediate bill reduction of approximately 3.50 percent as compared to its annualized May 2017 retail electric rates and subject to fuel clause adjustments and other non-NND adjustments, including rate case adjustments. Coupled with bill credits for tax benefits associated with the TCJA, the total reduction will be approximately 7.00 percent.

d. SCE&G will write off the $180 million purchase price of the 540 MW combined cycle natural gas generation facility that SCE&G has acquired to replace part of the anticipated nuclear generation.

3. The approximately $4.0 billion balance in the regulatory asset will be reduced to a net balance of approximately $3.3 billion. That $3.3 billion balance will be amortized on a straight-line basis over 20 years and recovered through rates.

Q. IN YOUR OPINION, WILL SCE&G CUSTOMERS BENEFIT FROM THE BUSINESS COMBINATION?

A. Yes. In my view, SCE&G's customers will benefit by the Joint Applicants' proposal in several ways, including:

1. Customers will receive an immediate financial benefit in the form of a one-time rate credit totaling $1.3 billion, a bill reduction which is estimated to total 7%, and a plan for long-term rate stability over a 20-year horizon;
2. Customers also will benefit from Dominion Energy's size and strength as the new ultimate parent of SCE&G.
    a. Dominion Energy is a large and financially stable company with relevant experience as the owner of sound utilities and infrastructure companies;
    b. Due to Dominion Energy's greater scale and diversification, Dominion Energy has excellent access to the equity capital market, and SCE&G would regain a source of equity capital;

c. SCE&G’s credit ratings would improve and become stable in the investment grade, and SCE&G would have strong access to debt funding;

d. With access to both debt and equity funding and stable investment grade credit ratings, SCE&G would have strong financial capability to fund expansion of distribution or transmission facilities as needed to meet customer demands and to restore service after natural catastrophes;

e. Because of the factors listed above, SCE&G’s future cost of capital following the business combination with Dominion Energy likely will provide additional benefits to customers.

Q. PLEASE EXPLAIN WHY YOU ASSERT THAT DOMINION ENERGY WOULD BE A STRONGER ULTIMATE PARENT CORPORATION FOR SCE&G?

A. As shown in Table 4 below, Dominion Energy's substantially greater size and scale is evident from Dominion Energy's greater equity valuation of $46.8 billion, which is over eight times SCANA's equity capitalization. The total enterprise value of Dominion Energy is approximately 6.6 times greater than that of SCANA. Also, Dominion Energy has lower debt leverage in relation to the total enterprise value of the corporations, with debt equal to 45% of total market capitalization, versus 56% for SCANA.

Table 4: Dominion and SCANA: Market Capitalization

	Dominion Energy	SCANA	Relative Scale
Price per Share (a)	$71.71	$39.99	
Shares Outstanding (b)	654,000,000	143,000,000	
Market Capitalization Equity (a)	$46,898,340,000	$ 5,718,570,000	8.2x
Total Debt (Book Value) (b)	$37,810,000,000	$7,183,000,000	
Total Enterprise Value (a)	$84,708,340,000	$12,901,570,000	6.6x
Debt to Total Enterprise Value	45%	56%	

(a) At July 31, 2018. (b) June 30, 2018.

A further source of Dominion Energy's strength is the diversity of Dominion Energy's business portfolio, as indicated in the distribution of segment profit contributions as shown in Table 5 below.

[Table 5 begins on following page]

Table 5: Diversity of Dominion Energy Business Segments

Dominion Energy Business Segment Financial Results, 2016-2017

$ Millions	2016 EBITDA	% of Total	2016 EBIT	% of Total	2017 EBITDA	% of Total	2017 EBIT	% of Total
Power Delivery	1,573	27%	1,036	24%	1,723	26%	1,130	24%
Power Generation	2,673	46%	2,011	47%	2,670	41%	1,923	41%
Gas Infrastructure	1,569	27%	1,239	29%	2,111	32%	1,589	34%
Segment EBITDA	5,815	100%			6,504	100%		
Segment EBIT			4,286	100%			4,642	100%
Corp Eliminations			(409)				(347)	
Total EBIT			3,877				4,295	
Consolidated Interest			(1,010)				(1,205)	
Consolidated Income Tax			(655)				30	
Minority Interests			(89)				(121)	
Total Income			2,123				2,999	

EBITDA: Earnings before interest, income taxes, and depreciation.
EBIT: Earnings before interest and income taxes; i.e., EBITDA plus depreciation.
Source: Dominion Energy Investor Materials

At present, regulated utility sources (including electric distribution and power generation, gas distribution, and gas transmission business) contribute approximately 90% of EBITDA, and approximately 10% is derived from other non-regulated businesses.

Q. HAS DOMINION ENERGY DEMONSTRATED ACCESS TO EQUITY CAPITAL FUNDING?

A. Yes. In January 2018, Dominion Energy issued $500 million of new equity through an "at the market" sale program. In 2017, Dominion Energy issued $335 million of new shares through employee savings programs and a dividend reinvestment plan, as well as $1 billion of new equity issued via equity purchase contracts relating to equity units.

Q. WHAT ARE THE CREDIT RATINGS OF DOMINION ENERGY AND ITS SUBSIDIARIES?

A. The long-term Issuer Credit Ratings and credit outlooks of Dominion Energy and those of its subsidiaries that issue securities with published ratings are listed in Table 6 below.

Table 6: Dominion Energy Companies: Long-Term Issuer Credit Ratings

Long-Term Issuer Credit Ratings of Dominion Energy and Subsidiaries*

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Dominion Energy Inc.	BBB+	Baa2	BBB+
Outlook	*Stable*	*Negative*	*Negative*
Virginia Electric & Power	A-	A2	BBB+
Outlook	*Stable*	*Stable*	*Negative*
Dominion Energy Gas Holdings LLC	A-	A2	BBB+
Outlook	*Negative*	*Negative***	*Negative*
Questar Gas	A-	A2	BBB+
Outlook	*Stable*	*Negative*	*Negative*
Dominion Energy Questar Pipeline		A3	BBB
Outlook		*Stable*	*Negative*

* Ratings at July 31, 2018. ** Under Review for Downgrade.

Q. IN YOUR OPINION, WHAT WOULD BE THE IMPACT ON SCE&G'S AND SCANA'S RATINGS AS A RESULT OF IMPLEMENTING THE PROPOSED BUSINESS COMBINATION, INCLUDING FULFILLING THE CONDITIONS TO THE TRANSACTION?

A. In my professional opinion, SCE&G's and SCANA's ratings would improve as a result of the following factors:

1. Stabilizing long-term cash flow by implementing the Customer Benefits and Cost Recovery Plan;
2. Relieving the prevailing anxiety and uncertainty about SCE&G's and SCANA's future solvency and liquidity;
3. Resolving uncertainty about the long-term ownership, and making the companies a part of a larger and more diversified corporate group; and
4. Improving access to capital market funding.

At a minimum, these actions would cause rating agencies to stabilize the current ratings and remove the negative watch status. It also is most probable that SCANA and SCE&G ratings would be raised by Fitch and possibly also by Moody's.

Q. PLEASE SUMMARIZE THE PUBLISHED VIEWS OF RATING AGENCIES ABOUT THE RATING IMPLICATIONS OF THE JOINT APPLICANTS' PROPOSED BUSINESS COMBINATION.

A. The most explicit statement by any credit rating agency regarding the business combination as proposed by the Joint Applicants appears in Fitch's January 3, 2018 release, which states:

> Acquisition by Dominion [Energy]: The merger with Dominion [Energy], as currently proposed, would strengthen SCANA's credit profile as it would bring SCANA into the fold of a large, financially stronger, predominantly regulated utility holding company as well as resolve most of the uncertainty surrounding the recovery of the stranded nuclear assets. A fully equity financed transaction and additional equity support to shore up, if needed, SCE&G's capital structure following write-offs and/or refunds is positive for SCANA and SCE&G's post-merger credit profiles. Fitch estimates that SCE&G's adjusted debt /EBITDA could stabilize in the 3.5x-4.0x range, which would be consistent with a long- term IDR of 'BBB'.[10]

Although Moody's does not forecast any causes for an upgrade, it has stated:

> The ratings could be confirmed at their current levels[11] if there is a substantial decline in the political and regulatory contentiousness characterizing the Summer cost recovery discussions, if the cost recovery provisions of the BLRA are upheld and the Act remains in place, if there is a solution that provides balance in the recovery of Summer costs among ratepayers, creditors and shareholders, maintaining SCE&G and SCANA's credit profiles, and if SCE&G is able to collect rates going forward that will support stable cash flow metrics, including a ratio of CFO pre-WC to debt at least in the low-teens range.[12]

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[10] Fitch Ratings, "Fitch Revises Rating Watch on SCANA and Subsidiaries to Evolving," at 1 (Jan. 3, 2018).

[11] That is, SCANA at Ba1 and SCE&G at Baa3.

[12] Moody's Investors Service, "Rating Action: Moody's downgrades SCE&G to Baa3 and SCANA to Ba1,

IV. ANALYSIS OF OTHER ALTERNATIVES

Q. HAVE ANY OTHER ALTERNATIVES BEEN PROPOSED BY SCE&G AND SCANA?

A. Yes. The Joint Application discusses two other less favored alternatives. These are referred to as the "No Merger Benefits Plan" and the "Base Request," the details of which are discussed more fully by Company Witnesses Addison, Griffin, and Kochems. In the event the Commission does not approve the proposed business combination, SCE&G proposed that the Commission adopt a rate mitigation plan (the "No Merger Benefits Plan"). Moreover, if the proposed business combination does not close and the Commission does not approve the No Merger Benefits Plan, SCE&G proposes that the Commission authorize and approve SCE&G to recover all costs and investments associated with the Project allowable by law without any present rate increase (the "Base Request").

Q. WHAT ARE THE FEATURES OF THE "NO MERGER BENEFITS" PLAN?

A. As mentioned, Company Witnesses Addison, Griffin, and Kochems discuss in more detail the provisions of the "No Merger Benefits Plan. Under this plan, SCE&G would agree, among other things, SCE&G would provide retail electric customers a reduction of 3.5% as compared to its annualized 2017 retail electric bills and subject to fuel clause adjustments and other non-NND adjustments,

ratings remain under review," at 1 (Feb. 5, 2018).

including rate case adjustments. SCE&G also would apply the Toshiba Corporate Guarantee Settlement Payments, net of amounts used to satisfy Project liens, in an amount of approximately $1.1 billion to reduce the outstanding balance of the NND Project investment. In addition, SCE&G would recognize for rate-making purposes a $490 million write-off against its NND Project investment, and will write-off an additional $360 million in associated regulatory assets. SCE&G would credit all tax savings and related benefits arising out of tax deductions associated with the abandonment of the NND Project to reduce the costs and revenue requirements to be recovered from customers. Further, SCE&G will amortize the net outstanding balance of the NND Project investment over a straight-line 50-year amortization period, producing an annual amortization expense of $63 million. In addition, SCE&G will write off the $180 million acquisition cost of the 540 MW Columbia Energy Center combined cycle gas generation facility in Gaston, South Carolina.

Q. WHAT IS THE BASE REQUEST?

A. Company Witnesses Addison, Griffin, and Kochems also discuss the details of the "Base Request" plan in more detail. Among other things, the Base Request would not offer any rate mitigation apart from the Company's commitment not to seek rate relief in the current docket and the use of the Toshiba Corporate Guarantee Settlement proceeds to reduce the balance of NND costs to be recovered. SCE&G will request for the Commission to authorize the accounting treatment and recovery of the $360 million in regulatory assets that Company Witness Kochems describes in his testimony. SCE&G would credit the net benefit of the Toshiba Corporate

Guarantee Settlement Payment after payment of Project liens to reduce the outstanding balance of the NND Project costs. SCE&G would not expense the $180 million acquisition cost of the Columbia Energy Center for ratemaking purposes. Further, SCE&G would record the net balance of NND Project investment, approximately $3.7 billion, in a regulatory asset and amortize that asset into retail electric expenses over 50 years on a straight-line basis, but will not seek recovery for the associated costs in this proceeding.

Q. IN YOUR OPINION, WHAT WOULD BE THE FINANCIAL CONSEQUENCES FOR SCE&G AND SCANA IF THE OUTCOME IS TO IMPLEMENT EITHER THE NO MERGER BENEFITS PLAN OR THE BASE REQUEST?

A. It is my view that the No Merger Benefit Plan would stabilize SCE&G ratings at the bottom of the investment grade, with credit ratings of approximately BBB- and Baa3. Favorably, uncertainty would diminish, so the ratings outlook could become Stable. SCE&G would not be in as strong of a position to fund capital projects for the benefit of customer needs, or to secure access to funding and vendor services in order to restore electric service after catastrophic events.

The Base Request likely would prolong the current financial uncertainty and anxiety, and ratings would remain on Negative Watch or Review for Downgrade, a situation that would likely persist through 2019. With such uncertainty, investors would hesitate to make new commitments of funds to SCANA and SCE&G.

Q. HOW DOES THE EXPERIMENTAL RATE, IF MADE PERMANENT, COMPARE TO THE OTHER SCENARIOS YOU HAVE JUST DESCRIBED?

A. Maintaining the Experimental Rate established by Act 258 and Order No. 2018-459 would deprive SCE&G of a major portion of its needed cash flow and would undermine its financial condition.

Q. WHAT ARE THE FINANCIAL CONSEQUENCES IF THE COMMISSION MAKES THE EXPERIMENTAL RATE PERMANENT?

A. As discussed by Company Witness Griffin, such rates, if made permanent, would result in reduced operating cash flow, a severe asset write-down, and a serious reduction of common equity.

The reduction in cash flow would cause a material increase in SCE&G's core cash flow debt leverage ratios as measured by credit rating agencies. At Fitch and S&P, the resulting financial ratios would drop below the levels required by those agencies to maintain the current ratings, and that would likely result in a one-notch downgrade by Fitch and a one- to-two notch downgrade by S&P. Any or all of the three agencies would likely decide to reduce their evaluation of the utility regulatory environment in the state, a very important factor in the three agencies' methodologies, increasing the likelihood of at least two and possibly three agencies dropping SCE&G's ratings into the speculative grade category. One serious consequence of speculative grade credit ratings would be to eliminate SCE&G's access to the commercial paper market as a source of short-term funding and raise the cost of short-term debt. At lower credit ratings, SCE&G would also experience higher costs of long-term debt capital and constrained access to debt funding, especially during any downturn in the capital market environment. SCE&G would be vulnerable to a liquidity squeeze as a result of investors' "flight to safety" during periods of heightened risk-aversion. Also, lower credit ratings would stimulate suppliers of fuel and major equipment to demand cash collateral or letters of credit as security for their exposure to SCE&G. The requirement to post collateral would reduce availability of credit under the committed credit facility and further increase debt leverage.

Moreover, the asset write-down would reduce SCE&G's book equity balance and would raise the ratio of debt to total capital, as calculated in the credit agreement debt limit covenant, to above 60%. While this alone would not breach the debt limit covenant in SCE&G's credit agreements, a higher leverage ratio, approaching the debt covenant level, would raise concerns among credit analysts, fixed income investors, and suppliers regarding SCE&G's ongoing liquidity, thus reducing financial flexibility.

The financial stress resulting from higher capital costs and constrained access to funding would limit SCE&G's financial resources and restrain its ability to make capital improvements to its system, perform preventive maintenance, attain high levels of storm preparation, and restore service promptly after major storms. As such, it would undermine SCE&G's ability to satisfy the needs of its customers for safe and reliable utility services, which would not be beneficial to the interests of customers.

V. RECOMMENDATION AND CONCLUSIONS

Q. WHAT ARE YOUR RECOMMENDATIONS AND CONCLUSIONS?

A. Customers of SCE&G need a healthy and financially sound utility in order to preserve and enhance the quality and reliability of electric service and satisfy future growth needs in the service territory. The current financially weakened condition of SCE&G and its parent company SCANA exposes customers to the risk of further downgrades of its credit ratings, constrained access to capital, increased cost of capital, deterioration of service, and insufficient financial resources to maintain an effective capital improvements program or to mount robust restoration efforts after severe storms.

The business combination as proposed by the Joint Applicants, including the related conditions, represents the most favorable of all alternatives and the one alternative that best balances the long-term interests of SCE&G customers with the need for a stable and financially sound utility company.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

EXPERIENCE AND QUALIFICATIONS
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SUMMARY OF QUALIFICATIONS

Industry expert on financing utilities and similar types of infrastructure. Over 40 years of professional experience in commercial and investment banking, securities analysis, and credit ratings. Focus on utilities, power generation and alternative energy sources, natural gas and fuels, corporate and project finance.

Provide executive training in utility financial analysis and credit analysis.

Consult and provide expert witness testimony in matters involving capital access for infrastructure, energy and utilities. (See pages 3-5.)

MBA in accounting and finance; Chartered Financial Analyst (CFA).

EMPLOYMENT

Lapson Advisory Principal Dec. 2011 - present	Financial consulting services to utilities and developers of infrastructure projects. Financial strategy and credit advisory for power, energy, infrastructure companies, and utilities. Expert witness testimony on financial and regulatory topics relating to utilities and infrastructure finance. Design and conduct financial and credit training.
Fitch Ratings Utilities, Power & Gas Managing Director 1999-2011 Senior Director 1994-1999	Chair of Fitch's global Corporate Finance Criteria Committee overseeing criteria for rating corporations, financial institutions, insurers, REITs, and project finance transactions (2010-2011). Manager or primary analyst on credit ratings of over 200 utility, pipeline, power generation companies. Utility tariff monetization. Senior member of rating committees for utilities and energy and power-related projects. Liaison with utility sector fixed income investors, focusing on 50 largest institutional investors holding utility and power bonds, buy-side and sell-side analysts, and utility bankers.

JP Morgan Chase (formerly Chemical NY Corp.) Vice President 1975-94 Asst. Vice President 1974-1975	Managed financial advisory transactions, structured debt private placements, syndicated credit facilities for utilities, mining and metals, project finance. Structured financing for utility regulatory assets (first of its kind "stranded cost" securitization transaction) for Puget Energy, 1992-94. Led financing for bankrupt utility as debtor-in-possession; prepared financing plans for distressed utilities; structured exit financing for reorganization of two utilities emerging from Chapter 11. Divisional Controller - 1981-1986
Argus Research Corp. Equity Security Analyst – Utilities 1969-1974	Equity analysis of U.S. electric and gas utilities, natural gas pipelines, and telecommunications companies. Modeling and projecting corporate financial statements. Research coverage and reports.

EDUCATION & CHARTER

Stern School of Business, New York University, MBA, 1975
Major concentration: Accounting
Master's Thesis: Cash Flow vs. Accrual Accounting Data in Utility Equity Valuation
Chartered Financial Analyst (CFA) since 1978
Barnard College, Columbia University, BA, 1969

PROFESSIONAL ASSOCIATIONS

Institute of Chartered Financial Analysts, 1978 - present
Wall Street Utility Group, 1996 - present

ADVISORY COUNCILS AND BOARD SERVICE

Rocky Mountain Institute Sustainable Finance Advisory Board member. 2016 to present.

Represented U.S. investment community in advisory panel on International Accounting Standard Board proposals for financial reporting for rate-regulated activities, sponsored by Edison Electric Institute and American Gas Association, Dec. 2014

National Academy of Sciences/ National Research Council, Resilient America Forum, July 2014.

MIT Energy Institute, External Advisory Council, The Future of Solar Energy, 2012-2014.

Electric Power Research Institute, Advisory Council, 2004-2011; Chair, 2009 and 2010.

EXPERT WITNESS TESTIMONY

Jurisdiction	Proceeding	Topic
DC Public Service Commission	Formal Case No. 1142, Merger Application of AltaGas Ltd. and Washington Gas Light, Inc. (2017)	Ring-fencing for utility merger; financial strength
Public Service Commission of Maryland	Docket No. 9449, In the Matter of the Merger of AltaGas Ltd. and Washington Gas Light, Inc. (2017)	Ring-fencing for utility merger; financial strength
Public Utilities Commission Texas	Docket No. 46957, Application of Oncor Electric Delivery LLC to Change Rates, on behalf of Oncor. (2017)	Appropriate capital structure.
Public Utilities Commission Texas	Docket No. 46416, Application of Entergy Texas, Inc. for a Certificate of Convenience and Necessity, Montgomery County, on behalf of Entergy Texas (2016-2017)	Debt equivalence and capital cost associated with capacity purchase obligations (PPA)
U.S. Federal Energy Regulatory Commission	Dockets No. EL16-29 and EL16-30, NCEMC, et al. vs Duke Energy Carolinas and Duke Energy Progress, on behalf of the Respondents (2016)	Capital market environment affecting the determination of the cost of equity capital
Hawaii Public Utilities Commission	Docket No. 2015-0022, Merger Application on behalf of NextEra Energy and Hawaiian Electric Inc. (2015)	Ring-fencing and financial strength
U.S. Federal Energy Regulatory Commission	Dockets EL13-48 and EL15-27, Delaware Div. of the Public Advocate vs. Baltimore Gas and Electric Company and PEPCO Holdings et al., for Respondents (2015)	Capital market environment affecting the determination of the cost of equity capital
Arkansas Public Service Commission	Docket No. 15-015-U, Entergy Arkansas, Inc. Application for Change of Rates, on behalf of Entergy Arkansas, Inc. (2015)	Effect of ROE and other rate matters on cash flow and credit ratings.
U.S. Federal Energy Regulatory Commission	Dockets No. EL14-12 and EL15-45, ABATE, et al. vs MISO, Inc. et al., on behalf of the MISO Transmission Owners (2015)	Capital market environment; capital spending and risk
U.S. Federal Energy Regulatory Commission	Dockets No. EL12-59 and 13-78, Golden Spread Electric Coop., on behalf of South-western Public Service Co. (2015)	Capital market environment; capital spending and risk
U.S. Federal Energy Regulatory Commission	Dockets No. EL13-33 and EL14-86, ENE et al. vs. Bangor Hydro-Electric Co. et al., on behalf of New England Transmission Owners. (2015)	Capital market environment affecting the measurement of the cost of equity capital
U.S. Federal Energy Regulatory Commission	Dockets No. ER13-1508 et alia, Entergy Arkansas, Inc. and other Entergy utility subsidiaries, on behalf of Entergy Services Inc. (2014)	Capital market environment affecting the measurement of the cost of equity capital

Jurisdiction	Proceeding	Topic
Delaware Public Service Commission	DE Case 14-193, Merger of Exelon Corp. and Pepco Holdings, Inc. on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
Maryland Public Service Commission	Case No. 9361, Merger of Exelon Corp. and Pepco Holdings, Inc. on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
New Jersey Board of Public Utilities	BPU Docket No. EM 14060581, Merger of Exelon Corp. and Pepco Holdings, Inc., on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
U.S. Federal Energy Regulatory Commission	Docket ER15-572 Application of New York Transco, LLC, on behalf of NY Transco, LLC. (2015)	Incentive compensation for electric transmission; capital market and financial strength
U.S. Federal Energy Regulatory Commission	Docket EL 14-90-000 Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency vs. Duke Energy FL on behalf of Duke Energy (2014)	Capital market environment affecting the determination of the cost of equity capital
DC Public Service Commission	Formal Case No. 1119 Merger of Exelon Corp. and Pepco Holdings Inc., on behalf of the Joint Applicants (2014-2015)	Ring-fencing for utility merger; avoidance of financial harm
U.S. Federal Energy Regulatory Commission	Docket EL14-86-000 Attorney General of Massachusetts et. al. vs. Bangor Hydro-Electric Company, et. al on behalf of New England Transmission Owners (2014)	Return on Equity; capital market environment
Arkansas Public Service Commission	Docket No. 13-028-U. Rehearing direct testimony on behalf of Entergy Arkansas. (2014)	Investor and rating agency reactions to ROE set by Order.
Illinois Commerce Commission	Docket No. 12-0560 Rock Island Clean Line LLC, on behalf of Commonwealth Edison Company, an intervenor (2013)	Access to capital for a merchant electric transmission line; financial capability
U.S. Federal Energy Regulatory Commission	Docket EL13-48-000 Delaware Division of the Public Advocate, et. al. vs. Baltimore Gas and Electric Company and PEPCO Holdings et al., on behalf of (i)Baltimore Gas and Electric and (ii) PEPCO and subsidiaries (2013)	Return on Equity; capital market view of transmission investment
U.S. Federal Energy Regulatory Commission	Docket EL11-66-000 Martha Coakley et. al. vs. Bangor Hydro-Electric Company, et. al on behalf of a group of New England Transmission Owners (2012-13)	Return on Equity; capital market view of transmission investment

Jurisdiction	Proceeding	Topic
New York Public Service Commission	Cases 13-E-0030; 13-G-0031; and 13-S-0032 on behalf of Consolidated Edison Company of New York. (2013)	Cash flow and financial strength; regulatory mechanisms
Public Service Commission of Maryland	Case. 9214 "In The Matter Of Whether New Generating Facilities Are Needed To Meet Long-Term Demand For Standard Offer Service", on behalf of Baltimore Gas and Electric Co., Potomac Electric Power Co., and Delmarva Power & Light (2012)	Effect of certain power contracts on the credit and financial strength of MD utility counterparties

CONSULTING & ADVISORY ASSIGNMENTS

Utility (Undisclosed) 2017	Credit advisory on ratings under a specific scenario. Objective: Compare strategic alternatives
Entergy Texas, Inc. 2016	Research study on debt equivalence and capital cost associated with capacity purchase obligations. Impact of new GAAP lease accounting standard on PPAs. Objective: Economic comparison of resource options.
Utility (Undisclosed) 2014	Evaluated debt equivalence of power purchase obligations. Objective: Clarify credit impact of various contract obligations.
Bank (Undisclosed) 2014	Research study and recommendations on Loss Given Default and historical experience of default and recovery in the regulated utility sector. Objective: Efficient capital allocation for loan portfolio.
GenOn Energy Inc. 2012	White Paper on appropriate industry peers for a competitive power generation and energy company. Objective: Improve peer comparisons in shareholder communications and for compensation studies.
Transmission Utility (Undisclosed) 2012	Recommended the appropriate capital structure and debt leverage during a period of high capital spending. Objective: Make efficient use of equity during multi-year capex project; preserve existing credit ratings.
Toll Highway (Undisclosed) 2011	Advised on adding debt while minimizing risk of downgrade. Recommended strategy for added leverage and rating agency communications. Objectives: Increase leverage and free up equity for alternate growth investments, while preserving credit ratings.
District Thermal Cooling Company (Undisclosed)	Recommended a project loan structure to deal with seasonal cash flow. Optimized payment schedule, form and timing of financial covenants. Objectives: Reduce default risk; efficient borrowing structure.

PROFESSIONAL AND EXECUTIVE TRAINING

In-house Training, Southern California Edison Co., Rosemead CA	Designed and delivered in-house training program on evaluating the credit of energy market counterparties, Nov. 2016
In-house Training, Undisclosed Financial Institution, NYC	Develop corporate credit case for internal credit training program and coordinate use in training exercise, 2016
CoBank, Denver CO	Designed and delivered "Midstream Gas and MLPs: Advanced Credit Training", 2014
Empire District Electric Co., Joppa MO	Designed and delivered in-house executive training session Utility Sector Financial Evaluation, 2014
PPL Energy Corp, Allentown PA	Designed and delivered in-house Financial Training, 2014
SNL Knowledge Center Courses	"Credit Analysis for the Power & Gas Sector", 2011-2014 "Analyst Training in the Power & Gas Sectors: Financial Statement Analysis", 2013-2014
EEI Transmission and Wholesale Markets School	"Financing and Access to Capital", 2012
National Rural Utilities Coop Finance Corp.	"Credit Analysis for the Power Sector", 2012
Judicial Institute of Maryland (Private seminar for MD judges)	"Utility Regulation and the Courts: Impact of Court Decisions on Financial Markets and Credit", Annapolis MD, 2007
Edison Electric Institute	"New Analyst Training Institute: Fixed Income Analysis and Credit Ratings", 2008 and 2004

PUBLICATIONS
BOOK CHAPTERS

"Managing Credit Risk in the Electricity Market", Ellen Lapson and Denise Furey, chapter 21 in Managing Energy Price Risk, 4^{th} Edition, Vincent Kaminski ed., Risk Publications, London, 2016.

"Standard Market Design: Credit of Some Sectors Will Be Affected by SMD", Ellen Lapson. Chapter in: Electric & Natural Gas Business: Understanding It, 2003 and Beyond, Robert E. Willett ed., Financial Communications Company, Houston, TX, 2003.

Energy Modeling and the Management of Uncertainty, Robert Jameson ed., Risk Publications, London, 1999. "Managing Risks Through Contract Technology: Know Your Counterparty", Ellen Lapson, pp 154-155.

"Managing Credit Risk in the Electricity Market", Ellen Lapson (pp 281-291). Chapter in: The US Power Market: Restructuring and Risk Management, Robert Jameson ed., Risk Publications, London, 1997.

Deregulation of the Electric Utility Industry – Proceedings of the AIMR Seminar; ed. AIMR (CFA Institute), Charlottesville, VA, 1997. Speaker 3: E. Lapson.

Credit Rating Correspondences
Long-Term Ratings

Moody's	Fitch and S&P
Investment Grade	
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Not Investment Grade	
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-
Caa1	CCC+
Caa2	CCC
Caa3	CCC-

FitchRatings

Fitch Downgrades SCANA to 'BB+' / SCE&G to 'BBB-'; Negative Watch Maintained

Fitch Ratings-New York-29 September 2017: Fitch Ratings has downgraded the Long-Term Issuer Default Ratings (IDRs) of South Carolina Electric and Gas Co (SCE&G) and its parent SCANA Corp. (SCANA) by one notch to 'BBB-' and 'BB+', respectively. Fitch also downgraded the ratings of Public Service Company of North Carolina (PSNC) by one notch, to 'BBB-', given the rating linkage with its parent, SCANA. Concurrently, the Short-Term IDRs of SCE&G, PSNC and South Carolina Fuel Company were downgraded to 'F3' from 'F2' while the Short-Term IDR of SCANA was downgraded to 'B' from 'F3'. The downgrade reflects the intense legislative and regulatory scrutiny of the abandoned units 2 and 3 of the V.C. Summer nuclear plant and recent comments by the South Carolina Attorney General that question the constitutionality of the Baseload Review Act (BLRA). A full list of ratings actions is listed at the end of this release.

Fitch is concerned with the sharp deterioration in the legislative and regulatory environment in South Carolina. There is a significant risk that SCE&G may have to cease collection of revenues related to the new nuclear units, as petitioned by the Office of the Regulatory Staff (ORS) to the SC Public Service Commission (PSC) until the legal issues regarding the BLRA are resolved. Fitch could consider additional negative rating actions if the BLRA were to be found unconstitutional and material refunds required. The Rating Watch Negative primarily reflects the risk that adverse regulatory orders could lead to restricted liquidity, constrained capital access and incremental debt issuance that alters the structural priority of debt levels. Fitch expects to resolve the Rating Watch once better visibility is obtained regarding the PSC order on the ORS petition as well as the liquidity and financing strategy at both SCANA and SCE&G.

KEY RATING DRIVERS

Deterioration of the Regulatory and Legislative Environment: The rating downgrade primarily reflects the severe deterioration in the legislative and regulatory construct in SC in recent days. The filing by the ORS seeking immediate suspension of revenues related to the new nuclear units as approved under the BLRA and possible refund of all revenues collected to date exemplifies the challenging environment. The House and Senate-led committees are critically reviewing the path of the failed project. In addition, criminal investigation into SCANA's management of the project and SC Attorney General's adverse evaluation of the constitutionality of the BLRA renders negotiation of a settlement for the recovery of the stranded costs impossible, in Fitch's view. Legal battles are expected to establish constitutionality of the BLRA, which will lead to a protracted period of uncertainty.

Potential Suspension of BLRA-Related Revenues: The BLRA-related revenues have been crucial to SCE&G maintaining credit metrics consistent with an investment-grade rating during the nuclear construction period. They represent roughly one third of SCE&G's estimated EBITDA for 2017 and the primary source of funds to start repayment of the construction-related debt incurred in recent years. Suspension of $445 million of BLRA-related revenues would lead to approximately 200bps deterioration in adjusted debt / EBITDAR metrics, which were at 4.5x as of June 30, 2017. While not part of Fitch's base case scenario, any permanent loss of BLRA-related revenues and associated write-offs would materially impair SCE&G's financial health, leading to multi-notch rating downgrades for SCE&G and SCANA depending on the repayment mechanisms and financing options available to them. In absolutely the worst-case scenario, if SCE&G is asked to refund to customers the $1.8 billion collected to date under the BLRA and all stranded assets are disallowed, the financial viability of the companies could be threatened.

Tax Offsets and Toshiba Guarantee: Tax deductions and the guarantee payments by Toshiba Corp are the most significant source of financial relief available to SCE&G and ratepayers. Management estimates that tax deductions for stranded costs and research and development at about $2 billion while payments due under the Toshiba guarantee were set at $1.192 billion. Recent announcement of the monetization of the settlement payments from Toshiba alleviates the collection risks stemming from its weak financial condition and the extended payment terms. Allocation of $1.1 billion of proceeds to reduce short-term borrowings can improve SCE&G's liquidity position and reduce financial leverage by about 0.5x.

Financial Policy and Capital Structure: Management's financial policy, including targeted leverage and allocation of capital, will also be key rating drivers going forward. The parameters set for SCE&G's and SCANA's IDRs incorporated significant latitude for leverage metrics to exceed levels commensurate with the ratings during the peak construction period. The loss of BLRA-related revenues would significantly curtail SCE&G's and SCANA's ability to generate FCF over the medium term. A more adverse outcome, including the permanent loss of any future BLRA-related revenues and write-off of all stranded assets, could permanently impair the balance sheet and FCF generation, constrain access to capital markets and materially impact the credit profile.

DERIVATION SUMMARY

SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A/Negative Watch), who undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L) (BB+/Negative) both operate regulated assets with evolving regulatory constructs. SCE&G's IDR is one notch above that of DP&L, despite slightly weaker credit metrics, as DP&L's ratings are constrained by those of its parent DPL, Inc (B+/Negative).

SCANA is weakly positioned compared to IPALCO Enterprises, Inc.'s (BB+/Stable), given the more constructive and predictable regulatory environment of IPALCO's subsidiary, Indiana Power and Light Company (BBB-/Stable). IPALCO's greater earnings and cash flow visibility more than offset its higher proportion of parent-level debt. SCANA has a favorable business profile as compared to DPL, Inc (B+/Negative) given its predominant regulated operations. DPL is currently in the process of transitioning DP&L's generation assets to a non-regulated subsidiary and is exposed to commodity risk on those generation assets. However, Ohio's regulatory construct, while still in transition, is more constructive than what is playing out in South Carolina. In addition, Ohio regulators continue to demonstrate a willingness to take actions to protect the financial integrity of its utilities.

Fitch focuses on operational ties between SCANA, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCANA's earnings while PSNC relies on equity infusions from SCANA to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one-notch above SCANA.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
-- Abandonment of V.C. Summer units 2 and 3 with net stranded costs of about $2.2 billion. No write-down of regulatory assets over the forecast period;
-- Cessation of collection of all BLRA-related revenues until the legal challenges to the BLRA are resolved (through 2019 on a conservative basis);
-- Monetization of Toshiba guaranty settlement payments for $1.016 billion in Sept. 2017 and receipt of $82.5 million in Oct. 2017;
-- A wide range of regulatory outcomes to the petition to abandon the nuclear project were considered, including significant write-downs of stranded assets and rebate of the Toshiba guaranty settlement to ratepayers in 2018-2019;
-- No base rate case filings and no material change to the 10.25% base authorized ROE.

RATING SENSITIVITIES

RATING SENSITIVITIES FOR SCANA
Positive Rating Action: The ratings could be stabilized if rate recovery mechanism authorized by the PSC for the stranded V.C. Summer expansion project and management's financial policy result in SCANA's adjusted debt/EBITDAR stabilizing at/or below 5.5x. Positive rating actions could be considered if risks related to the new nuclear construction project are resolved and adjusted debt/EBITDAR can be maintained at/or below 4.5x.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include:
--Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12-18 months;
--Unfavorable terms for the recovery of stranded costs and/or material unrecoverable costs;
--Adjusted debt/EBITDAR consistently and materially exceeding 5.5x;
--Shareholder-friendly initiatives, especially when combined with adverse regulatory outcome to the abandonment filing;
--Ring-fencing provisions that restrict cash inflows from SCE&G to SCANA.

RATING SENSITIVITIES FOR SCE&G

Positive Rating Action: The ratings could be affirmed if rate recovery mechanism authorized by the PSC for the stranded V.C. Summer expansion project and management's financial policy result in SCE&G's adjusted debt/EBITDAR stabilizing at or below 5.0x. Positive rating actions could be considered if risks related to the new nuclear construction project are resolved and adjusted debt/EBITDAR can be maintained at or below 4.0x. Fitch could widen the rating differential between the IDRs of SCE&G and SCANA if strong ring-fencing provisions were enacted.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include:
--Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12-18 months.
--Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;

--Continued deterioration in the regulatory and legislative environment in South Carolina;
--Adjusted debt/EBITDAR consistently and materially exceeding 5.0x.

RATING SENSITIVITIES FOR PSNC
Positive Rating Action: PSNC's ratings could be affirmed if SCANA's IDR is stabilized at 'BB+'. Positive rating action is predicated upon a rating upgrade of SCANA given PSNC's rating linkage with its parent. Fitch could widen the rating differential between the IDRs of PSNC and SCANA if strong ring-fencing provisions were enacted.

Negative Rating Action: Given the strength of the credit metrics for the current ratings, a downgrade of parent SCANA below the current 'BB+' represents the greatest likelihood of a PSNC downgrade. While less likely given the headroom, a downgrade could also occur if adjusted debt/EBITDAR exceeds 5.5x on a sustained basis.

LIQUIDITY

SCANA has adequate financial flexibility, under Fitch's base case scenario, to meet its obligations over the next 12 months without accessing the capital markets. As of June 30, 2017, SCANA had about $350 million available under its $400 million five-year credit agreement (expiry in December 2020) while SCE&G had $320 million available under credit agreements totalling $1.4 billion (mostly expiring in December 2020) and PSNC has full availability under its $200 million line of credit. Consolidated cash balances were minimal, a frequent occurrence in the electric utility sector.

Availability under SCANA's and SCE&G's credit facilities at June 30, 2017, is roughly equal to its debt maturities through 2018. Fitch estimates that SCANA incurred a very modest cash burn since the second quarter and anticipates that SCANA will be roughly FCF neutral in the next 12 to 18 months, including the loss of BLRA-related revenues but excluding any Toshiba-related rebates. Curtailment of dividend payments could provide up to $300 million of incremental liquidity, if needed. Monetization of the Toshiba guarantee payments, and the scheduled payment on Oct. 1, 2017, will bolster liquidity by $1.1 billion provided that mandated customer rebates related to this offset, if any, are spread over a long period of time. As a conservative assumption, Fitch's base case scenario assumes that Toshiba-related payments are initially allocated to reduce short-term borrowings but customer rebates to ratepayers are mandated by the PSC over 2018-2019.

Materially adverse scenarios such as permanent suspension of BLRA revenues or, in an extreme scenario, requirement for SCE&G to refund to customers the $1.8 billion collected to date under the BLRA, could create significant liquidity concerns and constrain access to capital. The credit agreements require each entity (SCANA, SCE&G and PSNC) to maintain a debt ratio of no more than 70%. Fitch estimates that SCANA had a 57% debt ratio and SCE&G had a 53% debt ratio at June 30, 2017.

FULL LIST OF RATING ACTIONS

Fitch has downgraded the following ratings and maintained them on Rating Watch Negative.

SCANA Corporation
--Long-term IDR to 'BB+ from 'BBB-';
--Senior Unsecured debt to 'BB+' from 'BBB-';
--Short-term IDR to 'B' from 'F3'.
--Commercial Paper to 'B' from 'F3.

South Carolina Electric & Gas Co.
--Long-term IDR to 'BBB-' from 'BBB';
--First Mortgage bonds to 'BBB+' from 'A-';
--Senior Unsecured debt to 'BBB' from 'BBB+;
--Short-term IDR to 'F3' from 'F2';
--Commercial paper to 'F3' from 'F2'.

Public Service Company of North Carolina, Inc.
--Long-term IDR to 'BBB-' from 'BBB';
--Senior Unsecured debt to 'BBB' from 'BBB+;
--Short-term IDR to 'F3' from 'F2';
--Commercial paper to 'F3' from 'F2'.

South Carolina Fuel Company
--Commercial paper to 'F3' from 'F2'.

Fitch is also assigning a senior unsecured rating to several existing senior unsecured notes at PSNC that were not included in the past.

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Summary of Financial Statement Adjustments - No financial statement adjustments were made that were material to the rating rationale outlined above.

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Additional information is available at www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016) (https://www.fitchratings.com/site/re/886557)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1029988)
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Unsolicited Issuers:

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
South Carolina Fuel Company USCP 4(2)/ 144A D	-	Short Term Rating	Unsolicited

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MOODY'S INVESTORS SERVICE

Rating Action: Moody's places SCANA and SCE&G on review for downgrade

Global Credit Research - 01 Nov 2017

Approximately $8.5 billion of debt and credit facilities affected

New York, November 01, 2017 -- Moody's Investors Service (Moody's) placed the ratings of South Carolina Electric & Gas Company (SCE&G, Baa2) and its parent company SCANA Corporation (SCANA, Baa3) on review for downgrade. The review is prompted by the escalating political and regulatory contentiousness that has developed following the organization's decision to cease construction of the V.C. Summer new nuclear units 2 and 3. The review will primarily focus on the impact of ongoing proceedings before the Public Service Commission of South Carolina (SCPSC).

RATINGS RATIONALE

The intensity of the political and regulatory backlash following SCE&G's and SCANA's decision to abandon construction of the V.C. Summer units and to eventually seek recovery under the state's credit supportive Base Load Review Act (BLRA) has been much greater than our initial expectations. The review for downgrade recognizes the potential deterioration in credit quality that could occur if some of the more punitive positions that have been put forth by law makers, and the South Carolina Office of Regulatory Staff (ORS), were to be implemented.

We still believe it is possible to achieve a balanced regulatory outcome that could allow SCE&G to move forward and focus on ongoing utility operations, while providing some rate relief to customers, which would be supportive of the company's current credit quality and ratings. However, in the current politically charged environment, where some law makers appear to be looking for a means to ensure rate payers bear none of the costs of the abandoned nuclear construction, this scenario seems more difficult to attain.

The review will focus on the impact of ongoing proceedings before the SCPSC regarding the ORS request for rate relief. We will also monitor pending legislative proceedings which appear to be focused on enacting new laws or amendments that would essentially undo the credit supportive elements of the BLRA and return to a more traditional rate making framework which would result in less assured cost recovery.

In September, ORS requested that the SCPSC issue an order immediately suspending all rates SCE&G is collecting in conjunction with the V.C. Summer construction project under the BLRA; and if the BLRA is found to be unconstitutional or is amended or revoked, to require the utility to provide credits or make refunds to customers. In October, ORS amended its request to add that the SCPSC also consider the most prudent manner for SCE&G to enable its customers to realize the value of the monetized Toshiba Corporation guarantee payment. SCE&G has filed a motion to dismiss the ORS request. A procedural schedule has been established and a hearing date set for December 12, 2017.

From a credit perspective, when considering that SCE&G is no longer exposed to the construction, execution and concentration risks of building a large complex nuclear project, and given previous credit supportive regulatory decisions, the companies' ratings are currently relatively well positioned. However, the political and regulatory environment has become less predictable and some of these proposals, if adopted, could meaningfully weaken future financial performance.

Specifically, if the ORS recommendations were to be adopted, there would be a significant reduction in cash flow and a meaningful impact on credit metrics. For example, we estimate the companies' ratios of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt, which are currently in the high-teens to twenty percent range, could move to the mid-to-low teens range. In addition, implementation of the ORS recommendation could lead to a substantial asset impairment, which in some downside scenarios, could result in a covenant violation under the companies' credit facilities, restricting their access to liquidity. In light of the increased regulatory and political uncertainty, the resulting metrics would likely no longer be appropriate for the companies' current ratings.

On Review for Downgrade:

..Issuer: SCANA Corporation

.... Issuer Rating, Placed on Review for Downgrade, currently Baa3

....Senior Unsecured Bank Credit Facility, Placed on Review for Downgrade, currently Baa3

....Senior Unsecured Commercial Paper, Placed on Review for Downgrade, currently P-3

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Baa3

..Issuer: South Carolina Electric & Gas Company

.... Commercial Paper, Placed on Review for Downgrade, currently P-2

.... Issuer Rating, Placed on Review for Downgrade, currently Baa2

....Senior Secured Shelf , Placed on Review for Downgrade, currently (P)A3

....Senior Secured First Mortgage Bonds, Placed on Review for Downgrade, currently A3

....Senior Unsecured Bank Credit Facility, Placed on Review for Downgrade, currently Baa2

..Issuer: South Carolina Fuel Company Inc.

.... Commercial Paper, Placed on Review for Downgrade, currently P-2

....Senior Unsecured Bank Credit Facility, Placed on Review for Downgrade, currently Baa2

Outlook Actions:

..Issuer: SCANA Corporation

....Outlook, Changed To Rating Under Review From Negative

..Issuer: South Carolina Electric & Gas Company

....Outlook, Changed To Rating Under Review From Negative

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The new V.C. Summer Units 2 and 3 are two Westinghouse AP1000 nuclear units (approximately 1,100 MWs each) that had been under construction at SCE&G's existing VC Summer plant site. SCE&G owns 55% of the new units, with the remaining 45% owned by Santee Cooper.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Research Update:

SCANA Corp. And Subsidiaries 'BBB' Ratings Remain On CreditWatch Negative On Passage Of South Carolina Bill

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Research Update:

SCANA Corp. And Subsidiaries 'BBB' Ratings Remain On CreditWatch Negative On Passage Of South Carolina Bill

Overview

- South Carolina Electric & Gas Co. (SCE&G) filed a lawsuit in the U.S. District Court in South Carolina in Columbia (Court) challenging the constitutionality of the South Carolina General Assembly's enactment of House Bill 4375 that significantly reduces the company's revenues related to the abandoned V.C. Summer nuclear construction project. The company requested that the Court issue an injunction prohibiting the South Carolina Public Service Commission (SCPSC) from implementing the new law.
- Our ratings on SCANA Corp. and its subsidiaries SCE&G and Public Service Co. of North Carolina Inc. (PSNC), including the 'BBB' issuer credit ratings, remain on CreditWatch, where we placed them with negative implications on Sept. 28, 2017.
- We are maintaining the CreditWatch to reflect the potential for a downgrade if the Court does not issue an injunction prohibiting the SCPSC from implementing the new law. The rate reduction would significantly weaken the company's financial measures, despite its recent announced plan to reduce its dividend by about 80%.

Rating Action

On July 3, 2018, S&P Global Ratings stated that its ratings, including the 'BBB' issuer credit ratings, on SCANA Corp. and its subsidiaries South Carolina Electric & Gas Co. and Public Service Co. of North Carolina Inc. remain on CreditWatch with negative implications. We lowered the ratings to current levels and placed them on CreditWatch with negative implications on Sept. 29, 2017.

The 'A-2' short-term ratings on these entities also remain on CreditWatch with negative implications.

Rationale

We believe the enactment of House Bill 4375, which will temporarily reduce customer rates by approximately 15% or about $31 million per month, will weaken the company's financial measures, despite its recent decision to reduce its dividend by about 80%. Absent the Court issuing an injunction, prohibiting the SCPSC from implementing the new law, we could lower ratings to reflect our expectation of materially weaker financial measures. Specifically, we expect that the company's adjusted funds from operations (FFO) to debt would deteriorate to about the 13%-14% range from Scana's current 17%-18% range.

CreditWatch

The CreditWatch with negative implications on SCANA and its subsidiaries reflects our view of ongoing uncertainty regarding cost recovery of the abandoned V.C. Summer nuclear construction project. We could lower the ratings if the Court does not issue an injunction prohibiting the SCPSC from implementing the new law. A rate decrease of the magnitude reflected in the law would weaken credit metrics significantly. We could also lower ratings even if the Court issues an injunction that is subsequently followed by a SCPSC order to reduce rates or an order to provide rate credits for Summer-related costs that results in weaker financial measures.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Watch Neg/A-2

Business risk: Strong
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb
- Group credit profile: bbb

Issue Ratings—Recovery Analysis

Capital structure

SCANA's capital structure consists of about $1.2 billion of unsecured debt issued by SCANA and $5.8 billion of debt issued by its subsidiaries.

Analytical conclusions

- The unsecured debt at SCANA is rated one notch below the issuer credit rating because it ranks behind a significant amount of debt issued by subsidiaries in the capital structure.
- Junior subordinates at SCANA are rated two notches below the issuer credit rating.
- Secured debt at SCE&G benefits from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.
- Unsecured debt at the utility subsidiaries is rated the same as the issuer credit rating in accordance with our criteria.
- Preferred stock at SCE&G is two notches below the issuer credit rating in accordance with our criteria.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By

Utility Real Property, Feb. 14, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

CreditWatch Action

SCANA Corp.	
Public Service Co. of North Carolina Inc.	
South Carolina Electric & Gas Co.	
Corporate Credit Rating	BBB/Watch Neg/A-2
SCANA Corp.	
Senior Unsecured	BBB-/Watch Neg
Junior Subordinated	BB+/Watch Neg
Commercial Paper	A-2/Watch Neg
Public Service Co. of North Carolina Inc.	
Senior Unsecured	BBB/Watch Neg
Commercial Paper	A-2/Watch Neg
South Carolina Electric & Gas Co.	
Senior Secured	A-/Watch Neg
Recovery Rating	1+
Preferred Stock	BB+/Watch Neg
Commercial Paper	A-2/Watch Neg
South Carolina Fuel Co.	
Commercial Paper	A-2/Watch Neg

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FitchRatings

Fitch Maintains Rating Watch Evolving on SCANA and Subsidiaries

Fitch Ratings-New York-03 July 2018: Fitch Ratings has maintained the Issuer Default Ratings (IDRs) of South Carolina Electric and Gas Co (SCE&G, BBB-) and its parent SCANA Corp. (SCG, BB+) on Rating Watch Evolving following last week's enactment by the South Carolina Legislature of HB4375. Among other provisions, the highly debated legislation orders the South Carolina Public Service Commission (PSC) to cut SCE&G's electric rates by 14.8% retroactive to April 1 2018 Fitch also maintains the 'BBB-' IDR of Public Service Company of North Carolina (PSNC) on Rating Watch Evolving given the rating linkage with its parent SCG.

Among other provisions, the legislation ordered the PSC to cut SCE&G's electric rates by 14.8% retroactive to April 1, 2018. On July 2, 2018, the PSC ordered the rate cut. As per the legislation, the rate cut is considered an "experimental rate" until the PSC issues an order in a multi-docketed proceeding by Dec. 21, 2018. If allowed to stand, Fitch considers the magnitude of the cut to be detrimental to SCE&G's and SCG's credit metrics, even after consideration of SCG's 80% reduction of the common dividend.

Despite the Legislature's characterization of the new rate as "temporary," Fitch is concerned that the expected December order could be of the same magnitude. If so, Fitch expects SCG's Total Adjusted Debt/EBITDAR to average around 6.0x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively. SCG has filed a federal court challenge to the legislation and requested an injunction to stay. Absent prompt favorable legal intervention, Fitch is likely to downgrade the ratings of SCG, SCE&G, and PSNC by one notch. If the PSC issues an order in December 2018 with a permanent cut of a similar magnitude, additional downgrades may be warranted. Fitch also notes important changes to South Carolina utility regulation contained in HB4375 that, in Fitch's view, are likely to result in the continuation of SCG's adversarial regulatory relationship. Fitch acknowledges the existence of additional state and federal investigations into various aspects of the terminated nuclear project but believes that at this time none have reached a level to have rating implications.

Fitch's Rating Watch Evolving also considers the potential positive implications of the proposed merger between SCG and Dominion Energy (DEI, BBB+/Stable). In January 2018, SCG's and subsidiaries' Rating Watch was revised to Evolving from Negative as a result of the agreed-to merger with a larger and better capitalized entity and the rate plan proposed by DEI. If the merger were consummated as originally envisioned, Fitch would expect a stabilization of SCG's and SCE&G's credit metrics and would consider an upgrade. However, given the animosity exhibited by the interventionist state Legislature, it is not clear if there is political support for DEI's proposed regulatory solution or the merger itself. An order is expected on DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. Absent any new developments, SCG shareholders are scheduled to vote on the DEI merger on July 31, 2018. Fitch is becoming increasingly concerned that even if DEI continues to move forward with the merger, its ability to effectuate a favorable outcome is greatly diminished. A decision by DEI to terminate the merger could also lead to multi-notch downgrades for SCG and its subsidiaries.

KEY RATING DRIVERS

Adverse Regulatory Environment: The ratings reflect the sharp deterioration in the legislative and regulatory environment in South Carolina since abandonment of the new nuclear project in July 2016. In addition to HB 4375's legislatively mandated 14.8% rate cut, changes to definitions and statutory components of the state's utility regulation are likely to result in diminished regulatory support, in Fitch's opinion. Among such items are an expansive definition of prudence, removal of the mandate that the Office or Regulatory Staff (ORS) must consider preservation of a utility's financial integrity, and granting the ORS subpoena powers. A second bill (SB 954) passed by the Legislature orders the PSC to deviate from the statutory six-month limit on rate proceedings and prohibits an order in the multi-docketed proceeding before Nov. 1, 2018. SCG has filed a lawsuit in federal court alleging that HB4375 and SB0954 constitute an unlawful taking of private property and violate due process, among other issues. The company has also requested an injunction to stay the immediate implementation of the two laws. It is not known how quickly the court will rule on the issue.

Financial Policy and Capital Structure: Management's financial policy, including targeted leverage and allocation of capital, will be key rating drivers going forward. The company recently cut its dividend by 80%, preserving approximately $275 million in cash annually. Nonetheless, if the recently ordered 14.8% rate reduction where to be made permanent there will be a significant effect on SCG and SCE&G's credit metrics. Fitch expects SCG's Total Adjusted Debt/EBITDAR to average around 6.0x over the next three years and SCE&G's to average around 5.7x, both above Fitch's previously stated downgrade thresholds of 5.5x and 5.0x, respectively.
Acquisition by DEI: The acquisition by DEI, as currently proposed, would enhance SCG's credit quality as it would bring SCG into the fold of a larger and better capitalized entity. If the merger were to be consummated as originally envisioned, Fitch expects a stabilization of SCG's and SCE&G's credit metrics and would consider an upgrade. An order is expected in DEI's proposal by Dec. 21, 2018 as part of the aforementioned multi-docketed proceeding. Absent any new developments, SCG shareholders are scheduled to vote on the DEI merger on July 31, 2018.
Parent/Subsidiary Rating Linkage: Fitch focuses on operational ties between SCG, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCG's earnings while PSNC relies on equity infusions from SCG to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one-notch above SCG.

DERIVATION SUMMARY

SCG, as a stand-alone entity with the current nuclear recovery uncertainty, is weakly positioned compared to IPALCO Enterprises, Inc.'s (BB+/Positive), given the more constructive and predictable regulatory environment of IPALCO's subsidiary, Indianapolis Power and Light Company (BBB-/Positive). IPALCO's greater earnings and cash flow visibility more than offset its higher proportion of parent-level debt. SCG has a slightly more favorable business profile as compared to DPL, Inc. (BB/Positive) given its predominant regulated operations. DPL is exposed to commodity risk though the generation assets owned by AES Ohio Generation LLC, a non-regulated subsidiary. However, Ohio's regulatory construct, while still in transition, is more constructive than what is playing out in South Carolina. In addition, Ohio regulators continue to demonstrate a willingness to take actions to protect the financial integrity of its utilities.

SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A/Negative), who undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L) (BBB-/Positive) both operate regulated assets with evolving regulatory constructs.

KEY ASSUMPTIONS

SCG, SCE&G
--14.8% rate reduction through the forecast period attributable to costs currently being collected for VC Summer Nuclear;

--Additional new nuclear development (NND) impairment of $1.67 billion;
--Columbia Energy Center recovered through rates in 2021;
--Reduction of the $2.45 annual dividend by 80% ($344 million to $70 million).

PSNC
--Volume growth around 2.0% in the intermediate term;
--Approximately $700 million of capex through 2020;
--Equity advances to maintain 40/60 debt/equity capital structure.

RATING SENSITIVITIES

SCG
Developments that May, Individually or Collectively, Lead to Positive Rating Action
The ratings could be upgraded if the merger into DEI closes as proposed and the issues surrounding the abandoned nuclear plants are resolved in a credit supportive manner. Ratings could be upgraded if recovery mechanisms for the stranded nuclear assets and management's financial policy result in SCG's adjusted debt/EBITDAR stabilizing at/or below 4.5x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
--The merger with DEI fails to close;
--Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months-18 months;
--Unfavorable terms for the recovery of stranded costs and/or material unrecoverable costs;
--Adjusted debt/EBITDAR consistently and materially exceeding 5.5x;
--Ring-fencing provisions that restrict cash inflows from SCE&G to SCG.

SCE&G
Developments that May, Individually or Collectively, Lead to Positive Rating Action
The ratings could be upgraded if the merger into DEI and resolution of new nuclear issues result in SCE&G's adjusted debt/EBITDAR stabilizing around 3.5x-4.0x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
Future developments that may, individually or collectively, lead to a negative rating action include:
--The merger with DEI fails to close;
--Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12 months-18 months.
--Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;
--Continued deterioration in the regulatory and legislative environment in South Carolina;
--Adjusted debt/EBITDAR consistently and materially exceeding 5.0x.

PSNC
Developments that May, Individually or Collectively, Lead to Positive Rating Action
Positive rating action is predicated upon a rating upgrade of SCG given PSNC's rating linkage with its parent. Fitch could widen the rating differential between the IDRs of PSNC and SCG if strong ring-fencing provisions were enacted.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
--Given the strength of the credit metrics for the current ratings, a downgrade of parent SCG below the current 'BB+' represents the greatest likelihood of a PSNC downgrade. While less likely given the headroom, a downgrade could also occur if adjusted debt/EBITDAR exceeds 5.5x on a sustained basis.

LIQUIDITY

As of March 31, 2018, SCG had about $343 million available under its $400 million five-year credit agreement (expiring in December 2020) while SCE&G (inclusive of

South Carolina Fuel Co.'s facilities) had $1.154 billion available under $1.4 billion of consolidated committed credit agreements ($1.2 billion maturing in December 2020 and $200 million maturing in December 2018). PSNC had about $108.7 million available under its $200 million credit agreement. Additionally, SCG held $199 million cash and cash equivalents as of March 31, 2018, of which $190 million was at SCE&G. Subsequently, the company retired on June 1, 2018 a $160 million maturing bond, which was guaranteed by SCG. SCE&G has two first mortgage bond maturities in November 2018 totalling $550 million. Not giving effect to potential refinancing or retirement of the November maturities, as of Dec. 31, 2017, the company has the ability to issue approximately $1 billion in additional mortgage debt. If SCE&G is not able to refinance the bonds in the corporate market, Fitch expects the company to be able to access its credit lines.

FULL LIST OF RATING ACTIONS

Fitch maintains the Rating Watch Evolving for the following ratings:
SCANA Corporation
--Long-term IDR of 'BB+';
--Senior unsecured debt of 'BB+';
--Short-term IDR of 'B';
--Commercial paper of 'B'.

South Carolina Electric & Gas Co.
--Long-term IDR of 'BBB-';
--First mortgage bonds of 'BBB+';
--Senior unsecured debt of 'BBB';
--Short-term IDR of 'F3';
--Commercial paper of 'F3'.

Public Service Company of North Carolina, Inc.
--Long-term IDR of 'BBB-';
--Senior unsecured debt of 'BBB';
--Short-term IDR of 'F3';
--Commercial paper of 'F3'.

South Carolina Fuel Company
--Commercial paper of 'F3'.

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Summary of Financial Statement Adjustments - No financial statement adjustments were made that were material to the rating rationale outlined above.

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Unsolicited Issuers:

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
South Carolina Fuel Company USCP 4(2)/ 144A D	-	Short Term Rating	Unsolicited

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Rating Action: Moody's confirms SCANA, SCE&G and PSNC, rating outlook negative

02 Jul 2018

Approximately $9 billion of debt and credit facilities affected

New York, July 02, 2018 -- Moody's Investors Service (Moody's) confirmed the ratings of SCANA Corporation (SCANA, Ba1) and its subsidiaries, South Carolina Electric & Gas Company (SCE&G, Baa3), and Public Service Company of North Carolina, Inc. (PSNC, A3), concluding the review for downgrade that began in February. The rating outlook for SCANA, SCE&G and PSNC is negative.

RATINGS RATIONALE

"The confirmation of the SCANA family's ratings comes after the enactment of state laws that order only a temporary, lower than originally proposed, reduction in SCE&G's rates, and leaves permanent rate authority with the Public Service Commission of South Carolina (SCPSC)", said Laura Schumacher, Vice President -- Senior Credit Officer. "The confirmation also considers SCANA's credit supportive announcement last week that it would cut its dividend by 80% in response to these legislative developments", added Schumacher.

Last Thursday, the South Carolina legislature overrode Governor McMaster's veto of a newly passed law requiring the SCPSC to temporarily lower SCE&G's rates. The rate reduction is equivalent to the total rate increases the company has received since 2011 under the state's Base Load Review Act (BLRA) relating to its construction of the now cancelled V.C. Summer new nuclear units 2 and 3. The reduction equates to approximately 14.8% of SCE&G's electric revenue, which is somewhat lower than the full, approximately 18%, reduction initially sought by the SC House and the Governor earlier this year. SCANA believes the laws are unconstitutional, and has filed for an immediate injunction. However, in order to preserve its options and support its balance sheet, the company has also reduced its dividend rate by eighty percent.

The ratings confirmations consider the manageable impact of the legislated revenue reduction on SCE&G's and SCANA's credit quality and metrics, especially in light of the dividend cut, while also recognizing that ultimate authority for establishing permanent rates remains with the SCPSC. The SCPSC has an open docket to evaluate rate plans proposed by SCANA and Dominion Energy, Inc. (Baa2 negative) in conjunction with their pending merger, as well as an alternate plan for SCE&G. Both these plans incorporate more credit supportive proposals for sharing of the cost of the abandoned nuclear plant.

Moody's believes the new legislation may further pressure the SCPSC to set rates that are unusually low or significantly delay or deny recovery; however we think it is unlikely they would establish rates that are lower than the temporary rates set by the new legislation. The legislation requires the SCPSC render its decision by December.

If SCE&G's rates are adjusted in accordance with the legislation, Moody's anticipates cash flow credit metrics at SCE&G and SCANA will decline to levels that are commensurate with their current ratings. For example we expect the two companies will exhibit ratios of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt in the low teens. On a credit positive note, the legislation did not require the company to make cash refunds of amounts previously collected which, absent a larger better capitalized partner, would have strained to the company's balance sheet and credit metrics and potentially led to a rating downgrade.

The rating confirmations also recognize SCANA's Thursday announcement that, in order to preserve its options, the company will be reducing its quarterly dividend by 80%. The reduction corresponds to the portion of the dividend attributable to the electric portion of SCE&G. Moody's views the decision to conserve liquidity in light of potentially lower revenues and continued regulatory and political uncertainty as supportive of credit quality.

Outlook

The negative outlooks on SCE&G and SCANA reflect continued uncertainty surrounding the ultimate decision of the SCPSC with regard to SCE&G's recovery of its new nuclear costs, and the future of its relationship with

SCE&G. The outlook reflects Moody's view that the political and regulatory environment within which the companies must operate is now considerably below average. The outlook also considers the potential for additional adverse developments as a result of ongoing investigations and legal actions related to the abandoned Summer new nuclear plant and reflects some uncertainty with regard to the company's future capital structure.

The rating confirmation and negative outlook at PSNC is consistent with the actions taken at its parent company SCANA. The linkage reflects PSNC's position within the SCANA family and the absence of strong ring fencing type provisions that could serve to insulate it from potential financial distress at the parent.

Factors that could lead to an upgrade

In light of the negative outlook, the ratings are not likely to be upgraded. The outlooks could be returned to stable if questions surrounding the recovery of SCE&G's abandoned nuclear project are resolved in a manner that provides an opportunity for SCE&G to generate CFO pre-WC to debt metrics that are at least in the low-teens. Longer term, should the political and regulatory environments return to a more normal state, with SCE&G able to consistently generate CFO pre-WC/debt metrics above 15%, there could be upward pressure on the ratings of both SCE&G and SCANA. Upward pressure at PSNC could develop if there were to be an upgrade of SCANA.

Factors that could lead to a downgrade

Downward pressure on the ratings could again increase if SCE&G is ordered to refund amounts previously collected under the BLRA, particularly without the benefit of a larger, better capitalized partner; or if rates established by the SCPSC later this year do not provide an opportunity for SCE&G to maintain a ratio of CFO pre-WC to debt that is at least in the low-teens on a sustained basis. Furthermore, if the company's liquidity becomes constrained, such as being unable to draw on its credit lines or to issue additional debt, there could also be downward movement in the ratings.

Outlook Actions:

..Issuer: Public Service Co. of North Carolina, Inc.

....Outlook, Changed To Negative From Rating Under Review

..Issuer: SCANA Corporation

....Outlook, Changed To Negative From Rating Under Review

..Issuer: South Carolina Electric & Gas Company

....Outlook, Changed To Negative From Rating Under Review

Confirmations:

..Issuer: Public Service Co. of North Carolina, Inc.

....Senior Unsecured Bank Credit Facility, Confirmed at A3

....Senior Unsecured Regular Bond/Debenture, Confirmed at A3

..Issuer: SCANA Corporation

.... Issuer Rating, Confirmed at Ba1

....Senior Unsecured Bank Credit Facility, Confirmed at Ba1

....Senior Unsecured Commercial Paper, Confirmed at NP

....Senior Unsecured Regular Bond/Debenture, Confirmed at Ba1

..Issuer: South Carolina Electric & Gas Company

.... Commercial Paper, Confirmed at P-3

.... Issuer Rating, Confirmed at Baa3

... Senior Secured Shelf, Confirmed at (P)Baa1

....Senior Secured First Mortgage Bonds, Confirmed at Baa1

....Senior Unsecured Bank Credit Facility, Confirmed at Baa3

..Issuer: South Carolina Fuel Company Inc.

.... Commercial Paper, Confirmed at P-3

....Senior Unsecured Bank Credit Facility, Confirmed at Baa3

Affirmations:

..Issuer: Public Service Co. of North Carolina, Inc.

....Senior Unsecured Commercial Paper, Affirmed P-2

SCANA is a holding company for SCE&G, a vertically integrated electric utility with local gas distribution operations regulated by the SCPSC; Public Service Company of North Carolina, a local gas distribution company regulated by the North Carolina Utilities Commission; and SCANA Energy Marketing, Inc. (SEMI, not rated), a non-regulated gas marketing business in Georgia.

The V.C. Summer Units 2 and 3 are two Westinghouse AP1000 nuclear units (approximately 1,100 MWs each) that had been under construction at SCE&G's existing VC Summer plant site before construction was suspended in 2017. SCE&G owns 55% of the abandoned units, with the remaining 45% owned by the South Carolina Public Service Authority (Santee Cooper, A1 review for downgrade).

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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